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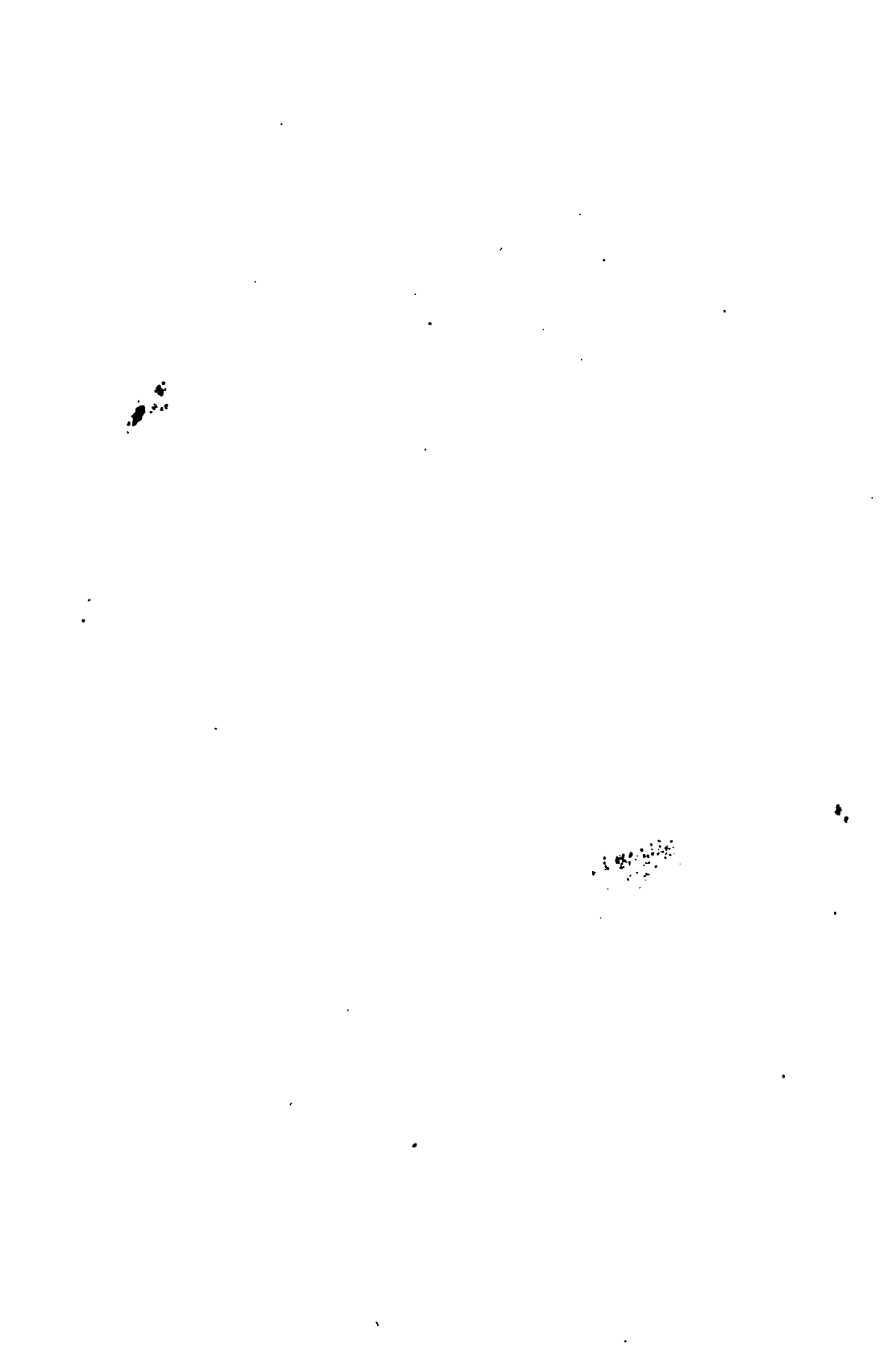
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**Proceedings of the  
Tenth Annual Convention of the  
Investment Bankers Association  
of America**

**Including  
Constitution and By-Laws  
List of Officers and Committees  
and Members of the  
Association**

**Held  
October 31, November 1 and 2, 1921  
New Orleans**



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(Adopted by the Board of Governors,  
August 8, 1913.)



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**1920-1921**

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*\* Elected at New Orleans, November 2, 1921.*

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## GOVERNORS ELECTED AT TENTH ANNUAL MEETING

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<b>THOMAS B. GANNETT, JR.</b>	Parkinson & Burr	Boston

\*To fill unexpired term of O. B. Willcox, resigned.

\*\*To fill unexpired term of McPherson Browning, elected as Treasurer.

\*\*\*To fill unexpired term of Thomas S. Gates elected as Vice President.



# Tenth Annual Convention *of the* Investment Bankers Association *of America*

October 31, 1921

## OPENING SESSION

*The President:* Gentlemen, I know of no better way of opening the Tenth Annual Convention in New Orleans than introducing the first speaker on the program. We deem it a great honor today to have with us the Honorable John M. Parker, Governor of the State of Louisiana. He needs no introduction to our members from this city, but in introducing him to the delegates from other parts of the country I want to say that from all I have heard about him he is a business man—two-fisted and red-blooded. I know he has something very interesting to say to us. Governor Parker.  
[Standing applause.]

## ADDRESS OF WELCOME

HON. JOHN M. PARKER

Governor of Louisiana, Baton Rouge

Mr. President, you are the real live wires of the financial world. My instructions were to come here this morning and to discuss very briefly a few of Louisiana's possibilities. I feel that it is an imposition almost to keep you men here when I know you would rather be in the open air than listening to a lot of detail in regard to our state, and still because we value you we welcome you here. We want you to know what we have. We want to give you some few statistics in regard to Louisiana. It is known in some portions of the country as a place where malaria and other conditions prevail, when as a matter of fact it is as fine and healthy a place as there is in the world.

We have the largest sulphur mines in the world in this state, and we are producing the purest sulphur in the world. It is so pure that the Italian Government has raised the issue that where sulphur that is ninety-eight and five-tenths per cent pure is coming direct from the soil it was being manufactured instead of coming from the soil as the crude article. We have the largest salt mines in the world which are furnishing a great variety of salts, table salt, and packing house product salt, for cattle, and for other uses. We have vast areas of pine forests, and only in the last three weeks it was my privilege to go over a very large area of country where reforestation is being carried on in the long leaf yellow pine and the loblolly pine. With the elimination of the great natural enemies, the fires, and the razor back hog, on these cut-over lands the pine grows very rapidly. I went over a very large area with Honorable Henry E. Hardkey, who is an expert on this work, and he assured me that by reason of the way this work was being carried on and developed he would be able to run his saw mill, without accident, for all time. In other words, reforestation is being worked out in a remarkable manner in the state of Louisiana. Outside of this we have a number of industries in this state, including large paper mills, which in the past few years have been developing the use of this loblolly and soft pine, and it has been found to make the finest kind of material for shipping. Many car loads of corrugated paper being sent to California for

the purpose of being used in crating fruits of all kinds, and other commodities.

We have an area representing practically almost every variety of soil known in the United States. Louisiana is the greatest of all sugar producing states and will produce this season nearly 300,000 tons of sugar in addition to the enormous amount of molasses and sirups and other good food articles that go all over the United States.

We are amongst the largest of all rice producing states easily handling more, I think, than any two states and that again goes all over the country.

We are where with the varied varieties of soil presented from the Arkansas line to the Gulf and from Texas to Mississippi, we comprise practically almost every soil known in the United States. Some of you might wonder why we have not gone ahead even more rapidly than we have, but we are just beginning to take advantage of our great natural opportunities and then of our natural resources.

We have today the largest gas fields in the world, estimated by the United States Government as being worth more than \$250,000,000. I have seen well after well brought in that would give from ten to as high as forty million feet of gas per day, and already we are working on the great problem of bringing that gas from the oil fields and from the gas fields down the Mississippi River which, after being completed and consummated, as I hope to see within the next year or two, will mean that from here to Baton Rouge and to the end of the Appalachian range you will find the finest and cheapest manufacturing section of the entire world because that gas would probably be sold at not exceeding 15 cents per thousand feet delivered at the factories, and the estimate made by Mr. Bane, who is the head of the United States Department of the Bureau of Mines, who was in my office a few days ago, was that this is the greatest gas field ever known in all history, and would undoubtedly last for fifty years or more because wells that have been in existence as high as two years instead of showing any depression in pressure, have materially increased their pressure and increased their flow of gas.

We are the third state in the Union on the question of oil production and every week are bringing more and more wells. That



has been largely confined to north Louisiana and parts of south Louisiana but the character and quality of that oil is very varied. Some is what they call heavy oil, other Caddo light, and we have in this state invested in the oil industry and oil refining in the neighborhood of probably one hundred million dollars. That is a reasonable estimate and then I call your attention to the further fact that only three days ago as I came from north Louisiana I saw another of the great pipe lines being built to transport that product quickly and economically from the refineries from which it goes all over the United States and all over the world.

And then in New Orleans we have a great city. We have a city that is struggling and striving not only to be one of the foremost ports, but I do not believe I am too optimistic when I tell you that the people of this city have bought millions of dollars worth of bonds and it is largely for their own benefit, but that gives us the great gateway of the entire west here and people can ship their products down the Mississippi River without congesting rail lines or transportation lines, and from our wharves deliver them and direct them all over the civilized world.

[Applause.]

In the handling of all of this work and the further fact that this is destined to be not only the port of import and export for a very large part of the central and middle west, we are not hurting or injuring anyone because we are handling these products on the basis of economy and on the natural God-given highway that crosses 29 of our states.

We have set a new example in Louisiana. We are trying to forget any such thing as politics and apply common sense and practical work. [Applause.] Our present dock board with the destinies of this city and this section in their hands are not composed of a single solitary politician. Mr. Hecht, the President of the Hibernia Bank and Trust Company, is the President of the Dock Board with full plenary power, and in addition to that he has four of the most prominent business men in the city of New Orleans, each of whom accepted this office not for what was in it, not for political reasons but accepted it as a patriotic duty to the welfare of our people and the welfare of the entire state.

[Applause.]

We want you, gentlemen, who are interested in bonds and in the sale of our bonds to see what we have here in this port. We want you to know that this is no ephemeral Board to be removed at the wish of any governor because our constitution wisely made this Board an overlapping Board, a Board running largely for six years on overlapping terms. There is no chance of any governor removing this Board except for bona fide cause, which I am certain never under any conditions will arise. We have gentlemen representing the grain interests, gentlemen representing the manufacturing interests, the cotton interests, and each one of the vast industries centered here is handled by business men, and with the further proviso as specified by me that under no circumstances or conditions am I suggesting a name to any one of them to appoint anywhere. I look to them to handle that just as they would handle their business on the lines of maximum efficiency and common sense. [Applause.] And when you go over to the cotton warehouse and the grain elevator that stands as the peer of any in this country, and then go over to see that canal that will give tidewater level for all of the products to be shipped anywhere, enabling vessels to come in and to load always on a tidewater basis and realize that you have a vast harbor here absolutely free from tropical storms or from any other hardships, a harbor that is composed of fresh water that kills off the teredo as soon as they attach themselves to the sides of your vessel and see that it has a facility with which to load and unload, see how when we work out the problems which confront us, all transportation lines working in closest connection with them to handle our products in and out on the most economical lines and basis known anywhere, what a wonderful change you are going to have.

Then I am going to digress just a second before closing. I believe we have in Louisiana, as I believe that we have all over the south, a body of men who have never been contaminated by that flood that comes to us from Europe of the lowest class of people with their isms, the bolshevist, the socialist, or any other kind of ist, because this country is not congenial to them. [Applause.] I believe you gentlemen know that character and stamina is the basis on which you largely make your credits. I believe and know that the great west with all of its people, its agriculturists, are, as a rule, freer from these conditions than the east. I know

throughout the south they are, and I want to tell you, while it is distinctly out of place for a discussion of this kind, I have traveled in nearly every state in the Union, there is not a single parish in Louisiana that I have not been all over, there is hardly a southern state that I have not been over, and I find a reflex of those conditions which we are finding everywhere, a period of unrest on the part of people who have not financially done well, I find it largely amongst the agriculturists, I find it amongst those people who have been the heads of labor organizations, and I have had occasion within the last few weeks to express myself very strongly and clearly on that point; that is, to recognize the right of every man who wants to quit work to quit; to recognize the right of a man to put his own value on his services; to recognize his right to join a union if he thinks that is for the protection of himself and his interests, and then put himself unqualifiedly on record that he has no right to interfere with any other man who wants to work. [Applause.] We have reached the point where we, as men, and you as financiers, might well look conditions squarely in the face. You are confronted with a large series of problems, and if you will scratch the surface, beneath you will find that the men who are the cause of it are men from the Old World who never have and who never will absorb American ideals or American viewpoints. You will find plenty of these men acting as the leaders of these people in an effort to turn them over en masse to this politician or that, or men who have no real interest in America. We are confronting this great danger today. We are too largely governed by politicians who keep their ears to the ground all the time and listen to what the bosses say and not to what the people need. [Applause.] The most valuable asset this country has, and the most valuable to the bankers and every single, solitary industry, is the character and standing of our people. Today more than ever we are confronted with a flood from those old countries whose ideals are not, and never can be the ideals of America. While we still have time and still have heed, let us not permit this country, which for one hundred and fifty years has been the only country on the globe ruled absolutely by its own people and which has had the courage of its conviction—don't permit these foreigners to come over here and in a year or two be naturalized and thus enabled to offset the vote of men who have had to live here for

twenty-one years before they are given the power to vote. Don't permit ourselves to bring in a class of cheap labor or bring a class of people which are a menace to our institutions. Let us not allow the dollar to sway us a second in regard to that, because you are simply adding trouble to this and future generations. To my mind there is no more vital, important question today before all of our people. It is a problem whether our manhood is going to let a small number of men control them and dictate to them, or whether we are going to stand up for what we know is right. When I first heard my lifelong friend Theodore Roosevelt refer to national welfare, it appealed to me as the greatest phrase I ever heard a man use, because in the long run we are here but a very short time and are dead a very long time, and we all owe coming generations the same privileges we possess, which are due to the forethought and aggressiveness of our ancestors. Let us make this country broader, better and safer for those coming after us. I most graciously thank you; I welcome you to our city; I hope you will take an interest in it and see what we are doing down here, and any assistance we can render you at any time I assure you will be a pleasure to serve you to the limit of my ability. I thank you. [Applause.]

*The President:* I think I have all of the members of this Convention with me when I say that it would be a mighty good thing for this country if a few more of our State Executives and our men in office had the courage and conviction that Governor Parker has expressed here this morning. [Applause.]

Gentlemen, the next thing on the program is the address that is supposed to be delivered each year by the President.

## ANNUAL ADDRESS OF THE PRESIDENT

ROY C. OSGOOD

Vice President, First Trust and Savings Bank, Chicago

While this Tenth Convention of the Investment Bankers Association of America marks the decennial of our annual meetings it is not quite ten years since our organization was founded. The first convention was held at New York on November 21, 1912, about three months after the Association came into being. It has been the custom to hold these meetings early in October, but out of deference to the Louisiana climate and the comfort of our members we listened to the wisdom of our kind hosts in New Orleans and decided the present time to be more propitious than an earlier one. Your splendid response in the way of attendance may be taken as a verdict of approval.

I am glad we have met in the South at this particular time. The Philadelphia Convention in 1914 marked the beginning of the uncertainties foreshadowed by the great war. The Baltimore Convention echoed the sound of this country's entrance into the actual conflict. The Atlantic City meeting found us emerging from it into the more hopeful conditions brought about by the armistice. This Convention has come together at a time when we can surely feel that we have turned the corner toward sound business.

The South, which has felt keenly the aftermath of war conditions, is itself turning the corner, is working its way out and looking forward with firm hope. We are happy in meeting here in a spirit of congratulation over this event.

This Decennial Convention is held at a noteworthy time for the country at large. The greater uncertainties of our post-war adjustment are being resolved into certainties. A year ago we wondered how the country's business would weather the storm. We were then going over the top of expansion. Violent liquidation of prices had begun. Business men were not over confident. Our Federal Reserve System was heavily expanded. Securities were being put out at peak interest rates. The drop in prices and the forced liquidation of inventories threatened "quick asset" covenants to the breaking point. What are conditions now? If the Federal Reserve banks are an index of the situation, liquidation

is an accomplished fact. Business has turned the hardest corner in your experience and is pulling steadily on the up-grade. It is a time for firm belief and sound optimism. Our own business faces a return to normal with a bright prospect ahead. The present is no time for gloom. The pessimist has gone out of the security business and we all feel the next few years are going to be so busy he will be forced out of an occupation. The forward movement will call for all our thought and time.

All this makes the present a good time to look backward as well as forward in our Association's history. There will be no better opportunity for introspection. I wonder if our honored founder and worthy first president, George B. Caldwell, realized what he was building when he laid the corner stone of our present structure. I for one think he had the vision of what could be built for he and those who worked with him laid a foundation that has not only safely borne the present building, but is strong enough and broad enough for building higher and higher. When the organization was first discussed some wondered if the investment banker had problems so clearly separate from the discount banker as to warrant a separate association. It was first decided that the problems, while separate in many aspects, were so generally allied it would be well to become a branch of the American Bankers Association. This plan was not accomplished. After this came the sounder conviction of our founders that investment banking had a distinct and separate field of its own. Ten years experience has proved this to be true. We started with a few members, but we started in the right way and as the years passed and our accomplishments became evident our members increased until today we have about ninety-five per cent of the better investment bankers in the United States and Canada numbered in our membership. We have now the largest and strongest membership in the history of our institution. We came to this convention with a large list of pending applications for membership. The formation of the Group organizations, which was completed in the past year, and the splendid spirit of zeal and coöperation they have exhibited have been largely responsible for the enhanced growth in the year 1921. Your Board of Governors in considering this situation has concluded that even greater care in admission to membership must be exercised and has decided to pass directly upon all applications after the Ad-

missions Committee has made its recommendations. If we are to continue our past and present accomplishments and are to maintain the country-wide recognition that has been so generously accorded us, we must not allow the Association to be weakened by any consideration of quantity rather than quality of members. Admission to the Association has become a desired privilege and must be kept at a high value.

Our Association has not only reached a position where the quality and numbers of its membership make for greater strength in accomplishing the purposes in view but where its finances are in equally excellent condition. At the very beginning those who were active as officers and committee members not only gave freely of their time in Association work, but paid their own travelling expenses as well. This policy not only made possible the beginning of real accomplishments when the organization was small and its financial means moderate, but a continuance of the same policy up to the present time has given us a treasury surplus free for emergency matters leaving us in sound financial condition for regular running expenses. Due to the financial foresight of the administrations that have gone before we found ourselves this year in a position to accomplish the work before us without encroaching upon our reserve, leaving it, as it should be left, to be used as occasion requires to finance those policies that may call for an expenditure in any one year beyond the amount raised by the annual dues.

I have touched upon the question of membership and finances particularly because I think their condition deserves more than usual attention at this time. In this connection the constant and excellent work of the Admissions and Finance Committees deserve particular credit. But with all that they have accomplished their work has been rendered infinitely more productive of fine results through the able and ever efficient services of our good Secretary, Frederick R. Fenton, and his staff of assistants. I think the Investment Bankers Association of America can well afford to indulge in self congratulation at being able to retain over a continued period of ten years in this office the services of one man who has been able, through his untiring energy and loyalty, to maintain the working centre of the Association at so high a standard.

The recognition that has been so freely accorded to the work of the Association is due to the untiring and excellent work of its committees under the supervision of the Board of Governors. During the sessions of the convention these committees will endeavor to put before you a summary of what they have done and are still doing. You may not realize it, but often the reports of these committees are notable for what they leave unsaid. Some of the best things the Association has been able to accomplish have appeared in a number of successive committee reports through but slight reference as a report of progress. Undoubtedly some of our members have wondered whether real progress has been made toward accomplishing definite results in any field. There can be no doubt, however, to anyone who has had opportunity for careful study of the problems confronting us from year to year that real progress has been made. Some of the things that are necessary of accomplishment can be solved in a comparatively short period of time. Others, however, are continuing problems and results must be measured by a constant application of effort and be found in a steady betterment of conditions. The Association has never gone backward and every year accounts for one further step toward solving the internal and external problems confronting the business of our members. We are growing stronger every year and I feel confident that in the future as in the past the policy of our Association will be maintained on those broad lines that have made for real progress.

Standing at the decennial mark of our growth it seems appropriate to indulge in some self analysis and I would like for a few moments to have you consider a few of the broader aspects of your collective relation to the security business. The members of our Association occupy a separate and distinct field of financing. Theirs is the problem of long term finance as distinguished from that of ordinary commercial banking. Theirs is not alone the problem of financing industrial organizations, but that of government and municipal financing as well. Nor do they approach the problem from the single angle of sellers or merchandisers of securities. Many of our members confine their business to the origination of securities and selling them to dealers. Others occupy the double position of both originating securities and selling them directly to the public. Many others confine their business to buy-



ing securities already issued and selling them to the public. Although this is familiar to you all as a part of your daily business I call attention to it in order to focus your minds on some of the duties and responsibilities growing out of this state of facts. Standing as you do between the maker of securities on the one hand and the investing portion of the public on the other, your duty as investment bankers becomes a double one and the responsibilities that arise from this two sided contact offer a field of constructive effort that calls for your best thought and energy if the future of this Association is to continue one of real accomplishment. In order to have the thought more concretely in your minds I am going to outline some of these duties as I see them.

First there comes the problem of better securities. A consideration of this brings to the foreground the relation between the banker and the issuer of securities. It is in this respect that the investment banker must consider his responsibilities as a financial adviser. Even here, however, where the first consideration is that of constructing securities on sound financial lines the public or investors' side of the problem cannot be ignored. After all the structural qualities have been considered from the borrowers' standpoint there is left the great factor, the market. Will the public buy the security and ought it to buy such a security? While the public's side of various classes of securities may have common aspects, which I shall allude to later, the problem of these classes from the viewpoint of the originator varies with the class. Municipal and corporate obligations have their separate aspects that call upon the responsibilities of our members in varying degrees. Corporate obligations even in themselves present different problems as they are viewed from the needs of utilities, from the needs of the communities or the needs of industrial development. Then again these classes of securities present a different problem if they are foreign rather than domestic. The structure of all securities is made up of three elements: First, the law; second, business or economic policy, and third, the market. The investment banker has a positive duty in each of these phases.

For a moment consider some of our duties relative to the law. In the field of government, state and municipal securities, the law is the main consideration. Do the laws already on the statute books enable the issuance of sound securities? If they do not we

have a clear duty to urge their reform until they do. Do they reflect a wise financial policy? Here are involved all the varied problems of fiscal finance and questions of proper constitutional provisions. There are often involved proposals of the cure-all type of legislation based upon a popular demand of the moment with all the usual economic fallacies that follow in their train. Unless these are vigorously opposed they find their way into legislation to the detriment of sound financing and the public good. The problems of taxation have a continued bearing on the structure of this class of securities. It becomes our duty to offer Congress and the legislatures of the states the best counsel that can be afforded by the collective ability and experience found in our membership. During the history of our Association the thinking members of these legislative bodies have come to realize that we have a duty in this regard inasmuch as practically all securities of this character are bought by our members and sold to the public. I have often wondered how fully the citizens of a municipality realize the time and expense that the community saves by being able to sell all of its securities at one time and price so that the proceeds may be available as it needs them. In these phases of the problem the aid and counsel of our Government Bond Committee, Municipal Securities Committee, Taxation Committee and Legislation Committee have been both sought and offered freely. In this work we have had the coöperation not only of governmental agencies, but of other organizations as well. We are also brought into close contact and have a similar duty with legislative provisions affecting the issuance of public utility and railroad securities. This work has been effectively handled through our Public Service Securities Committee and our Railroad Securities Committee. In the case of government and municipal obligations the law becomes almost the entire consideration because in its terms are found not only the powers and restrictions upon the issuance of securities, but the boundaries of the economic policies as well. In the case of railroad and public utility securities the structure depends upon a mixture of both law and private contract in a more nearly equal degree with the limitations upon economic policy depending often as much on the one as the other.

In the case of corporate business obligations the law becomes more of an expression of the limits of private contract and contains

less of an expression of economic policy. The business economics in this case can be left more to the parties themselves and can be brought out in the contract for the issuance of the obligations. This places even a greater and more definite responsibility upon the investment banker as a financial adviser. The judgment of such a banker here may be followed more freely. The main consideration is the financial plan of the issuing corporation. Is it sound in principle? Are the individuals capable of conducting the business? Are they properly organized? Will the method of financing help or injure the business? All of these questions, and many others that will readily occur to you, point out your responsibilities in such a situation. One of the problems that confront you here is that of the contract between the borrower and the investor. Is it too liberal or too stringent? Does it compare well with forms that have become recognized as standard so that the securities may have a broad market whether viewed as an investment holding or valued for collateral? Do they protect the investor as well as the borrower? Are the obligations misleading to a believing public either in form or title? Is the agreement full of what has come to be recognized and frowned upon as "window dressing"? Do the protective agreements and the securities themselves tend toward simplicity and better comprehension on the part of both the borrower and investor, or are they clouded by a fog of incompetent, prolix and uncertain phraseology that only the counsel who draw them can understand when they are drawn and is himself doubtful about six months after? Are the financial statements of the borrower frankly and clearly presented? Some of these problems have been considered by your Industrial Securities Committee, Irrigation Securities Committee, Marine Securities Committee and Real Estate Securities Committee. They all present plenty of work for the future. They and many others like them deserve your thoughtful consideration.

The duties that face us in the case of domestic obligations probably are present in even greater measure in foreign obligations whether governmental or of quasi-public or private character. Even our members themselves are less familiar with the laws and customs under which they are issued. The duty here perhaps is more to the public and their fellow investment bankers. It is not so feasible in the case of these obligations for our members to bring

to bear as much constructive criticism upon the legislation under which they may be authorized, so that corrections of fundamental defects are less easily effected by them. It follows that there must be a closer study not only of the purposes for which such securities are issued but of the laws, customs and business practices surrounding them. This is one of the prime duties that are more presently confronting us because we are undoubtedly in the foreign security market to stay. Our committee on Foreign Securities has under consideration many of the problems involved and its work for the future calls for your aid in solving the questions connected with these responsibilities.

The market aspect of the structure of securities brings out the duty of the investment banker to the public. I think that most of those who are engaged in the distribution of securities feel more and more the great responsibilities that rest upon them in this regard. The problems presented by this side of our business call for the consideration of many questions. In this connection our duty is both general to the public and particular to the individual investor. What security is suited to the investor under consideration? If the investor is a corporation what ought it to buy, having in view the purpose of its organization? If it is a charitable or public benefit organization, our duty to sell one class of securities ought not to give way to a desire to sell another class that affords a greater profit. Is the investor a woman; a person of small or large means; a business man capable of judging and analyzing a given investment or a person dependent entirely on your own representations? All these aspects of the case bring out varying duties and responsibilities to the individual investor which are a part of the every day business of the seller of securities. His permanent business success is dependent upon the care and consideration he brings to their solution.

To the general public we have many clear duties. So far as the structure of securities may be affected by legislation we have a clear duty to give the public the best of our experience. There is, however, one public duty that stands out beyond all others and that is to do all in our power to protect the public against unsound securities. This duty must of course be exercised first in our own organization by making and dealing in only those securities that are sound in principle and then seeing that the truth is told about

them when they are sold. The next duty is to scorch out so far as in our power the dealer in fraudulent and false securities. This is a duty which confronts us particularly at this time. During the war there was created, through the sale of liberty bonds, the greatest body of individual investors ever known in the history of this country. These investors have been a constant prey of the crooked dealer who endeavors to sell them worthless securities in exchange for their government bonds by methods familiar to you all. We helped sell the liberty bonds and helped make these people investors and it is as much our duty as it is that of the Treasury and the Federal Reserve Board to see that they are protected so far as it may be possible either by agencies created by law or by such volunteer effort as will aid in clearing the country of these crooked dealers. Even if duty alone were not sufficient consideration our self-protection in business ought to be incentive enough. The elimination of false and fraudulent securities can be brought about not only by repressive means, but by the better education of the public in regard to what constitutes sound securities. In addition to aiding in the passage of sounder protective legislation and affording better coöperation with the public officials, all this can be helped by the better education of salesmen, better advertising and a close coöperation in bringing the crooked deal to light and causing the dealer to be punished. The Fraudulent Securities Committee, Publicity Committee, and Education Committee are steadily working to this end and need all the help you can give them.

We also have our own internal problems in which all these things are involved. I have a strong feeling that the ethics of the dealings among ourselves are constantly reaching a higher plane. It is natural in the evolution of any business for evils to creep in. Some of them through the very nature of competition itself become customs in spite of their general condemnation. Many of them grow out of carelessness or thoughtlessness. A collective consideration of these evils is alone a hopeful sign even if they cannot be eradicated all at once. Some of them have been studied and the result of the study has been seen in a marked improvement of business relationships among our members. Your Syndicate Agreements Committee has ably considered some of these matters and made clear-cut decisions and helpful recommendations. Your

Committee on Ethics and Business Practice stands ready to help carry them into effect.

We have sometimes been asked even by dealers themselves, why is the Investment Bankers Association of America actively interested in this or that public problem which at first glance seems outside the natural scope of its activities? I have tried by what I have said to indicate to you in a brief manner the answer to the question. It is because the natural duty of the investment banker touches at so many points, that his representatives in your Association deem it advisable to take an active interest in these matters. Our activities are perhaps justified as well as made necessary by the peculiar nature of our business relationships. Do you know of another business organization of country-wide activity such as ours whose members repeatedly become partners in their every day transactions? In the syndicating of securities our members constantly enter into partnership with each other. This is one reason, if there were no others, why we need to keep our membership clean, our policies broad and our ideals high. It also explains why we can accomplish so much—we have formed close acquaintanceships and solid friendships even though as individuals we may be country-wide apart. Such an organization built on such lines need have no business fear in clean thinking, plain speaking and striking hard for the things that are right.

*The President:* Gentlemen, will you now listen to the report of the Secretary?

*The Secretary:* Mr. President and Gentlemen of the Convention: I am going to make a statement that I think you will be more interested in than any that has been made before, I am not going to read the report, but I am going to submit it in writing. [Applause.]

For your further information I will state that the long report, such as you have been listening to at past conventions, is all printed and in my office and is being distributed now.

The Secretary has a lot of things that he would like to say to you, but he will put them in writing. Thanking you for your close and hearty coöperation in the past year, the Secretary is through.

*The President:* I can see by the smiles on your faces, and by the applause, that the Secretary's report is appreciated. I want to say that you will find that the Secretary's report is well worth reading. He has taken great pains to review the history of the organization at this its tenth annual meeting, and you will find many things that are interesting in that report.

## **TENTH ANNUAL REPORT OF THE SECRETARY AND REVIEW OF TEN YEARS OF PROGRESS OF THE INVESTMENT BANKERS ASSOCI- ATION OF AMERICA**

**TO THE OFFICERS AND MEMBERS OF THE  
INVESTMENT BANKERS ASSOCIATION OF AMERICA:**

It becomes my duty at this time to present the annual report of the Secretary's Office. In addition to the report for the current year ended August 31, 1921, I am submitting and making a part of this report a review of the Association's activities since its organization on August 8, 1912.

### **BULLETIN SERVICE**

The Association continues to maintain the "I. B. A. of A. Bulletin" as its official organ. During the past year, however, the character and make-up of the Bulletin has undergone somewhat of a change. In conjunction with the Publicity Committee, the Secretary's Office has published contributions from members of the organization on subjects relating to the everyday business of the investment bankers. These articles have brought forth some helpful discussions and have tended to make the Bulletin more of an open forum. During the past year we have issued twelve Bulletins and three supplements, totaling four hundred and thirty-eight pages. The supplements have contained the lists of legal papers and opinions deposited with the United States Mortgage & Trust Company and have been distributed only to the members.

During February of the past year we presented each member of the Association with a binder in which to file the Bulletins and circular letters as issued from the Secretary's Office. We believe that this was a distinct service in that it furnished a means of keeping in one cover all of the communications from the Association.

### **MEMBERSHIP**

The Chairman of the Membership Committee will present to this meeting a detailed report of the activities of that committee in passing upon applications for membership during the past year. It is not my desire to encroach in any manner upon the premises



of this committee and whatever comments I have to make will be merely general in character.

During the past year ninety-six houses have been admitted to membership in the Association and there are today on file before the committee a large number of applications awaiting final action. Your Secretary believes that the Membership Committee should be highly complimented for the way in which it has handled applications during the past year. It has been the duty of the Secretary to carry on the necessary investigation, secure the necessary circulars, communicate with the groups as to the standing of the house and to receive and record the ballots of the individual members of the Membership Committee. This information in turn has been transmitted to the Chairman of the Committee for final approval. The chairman of the committee in turn places the same on file in the Secretary's Office to be brought up before the Board of Governors at its subsequent meeting for final review.

The large increase in the number of applications filed has caused the Membership Committee considerable concern and has led to the question of limiting membership to be discussed before the Board of Governors. Many plans have been brought forth, but as yet no satisfactory solution has been presented. Obviously, it would not be correct to limit membership in the Association to a certain number. Under the circumstances, your Secretary feels that limitation should come by process of elimination and rigid examination such as has been carried on by the committee during the past year.

The organization of groups throughout the country has been of distinct service in the work of the Membership Committee.

### GROUPS

As organized at the present time, the Association members are divided into sixteen groups with definite territory allotted to each. The groups have been of unquestioned assistance to the Association in three ways.

First: The national organization has been able to keep in touch with any given local legislation and to offer definite assistance in working out the national program.

Second: It has kept the membership informed, through the regular quarterly meetings, of the activities of the national Association.

Third: It has tended to eliminate from membership any undesirable house. The local groups are naturally in a position to give considerable advice to the national Membership Committee.

### BLUE SKY SUMMARIES

Thirty-eight states of the union now have laws regulating the sale of securities. These laws lack uniformity and have for years been a great burden to the legitimate dealers in their desire to conform to all of the laws affecting their business. It has been the policy of the Association to distribute to the membership the text of all laws regulating the sale of securities but no attempt was ever made to compile the statutes in one volume. Accordingly this year the Board of Governors voted to present to each member of the Association an analysis and text of the blue sky laws of the country. This volume was prepared under the direction of Reed, Dougherty & Hoyt of New York and distributed without cost. Upon payment of a small nominal annual fee, the members are able to keep this book up to date by means of a supplemental service.

### FINANCIAL ADVERTISING

Through the medium of advertising the investment banker of today is enabled to present to the investing public the securities which he offers for sale. It has been felt for some time by those interested in the subject that the advertising of the investment dealer has not progressed with the same rapidity as the merchant offering other commodities for sale. Mr. Howard F. Hansell, Jr., as Chairman of the Publicity Committee, realizing that this was a problem which was having more serious consideration by members, has arranged a very interesting exhibit at this convention, of samples of advertising not only from the members of the Association, but the exhibit of the Financial Advertisers Association. Members are particularly urged to avail themselves of this opportunity to examine the exhibits which are displayed in the registration room adjoining the convention hall.

In arranging for this exhibit the Committee on Publicity was aware of the fact that it was a distinct departure from previous years and it was not taken without considerable thought. The

response of the members to the invitation to display samples of their advertising has been exceedingly gratifying and has gone far beyond the expectations of not only the committee, but of the officers and Board of Governors.

#### FINANCE COMMITTEE

To the Finance Committee of the Association falls the duty of passing monthly on all bills presented for payment, and to see that the surplus funds of the Association are properly invested. The committee has met monthly in the offices of the Secretary.

#### 1920 YEAR BOOK

The Secretary's Office, in the regular course of business, distributed to the members of the Association the proceedings of the 1920 convention held in Boston. This volume followed the lines and style of previous years with which you are all familiar.

#### OFFICE COUNSEL

In the everyday business of the investment banker many questions arise which have to be answered by legal counsel. The Association for some time has had at the disposal of members the services of Theodore Chapman, as Office Counsel. It is not the idea that this service should in any way supplant the counsel regularly retained by members. Rather it is supplemental thereto. For several years inquiries were made of the Secretary which practically amounted to a legal inquiry and as these inquiries grew in number the Board of Governors decided they should receive the consideration of legal talent, with the result that Mr. Chapman was retained.

Questions of a general character are proper for submission to Office Counsel. All questions must be submitted to the Secretary's Office who in turn will transmit the reply of Counsel.

Members are urged to take advantage of this service which is without cost.

#### CONCLUSION

The reports of the various committees will go into more detail and acquaint the membership with the activities of the past year.

These reports will all be included in the year book which will be prepared and sent to the membership later on.

In point of membership, finances and activities the year just closed has been one of the most successful in the history of the Association.

Respectfully submitted,

FREDERICK R. FENTON, *Secretary*

## REVIEW OF TEN YEARS OF PROGRESS

In 1912 about one hundred investment bankers gathered to perfect the organization of the Investment Bankers Association of America. The organization meeting came about as the result of a growing feeling of the importance that the investment banking business was assuming.

There was a need for the Association at the time of its organization. Competition is recognized as an incentive in any line of business, but in the investment banking business the individual houses all over the United States and Canada have much in common. The distribution of securities to the investing public is by nature somewhat coöperative. The forming of a syndicate is but the formation of a temporary partnership.

With the increasing size of the issues offered to the public many problems were presented for solution, to say nothing of legislation in the several states of the union and in Congress.

Public utility commissions and their rulings naturally affected the value of securities. All of these factors, together with many others, created the feeling that some organized effort must be made to bring together the legitimate dealers of the country.

Thus the Investment Bankers Association of America came into being.

The distribution of investment securities thirty years ago was carried on principally by houses located in New York, Boston and Philadelphia. In those days the modern syndicate was unknown, in fact such a form of distribution really began to assume national proportions less than fifteen years ago. Ten years ago as corporate financing developed, as municipal financing grew in amount, the dealers found it necessary to coöperate more closely in distributing. Ten years ago it was estimated \$1,557,146,000 in corporate securities and \$400,000,000 in state and municipal securities were distributed to the investing public as compared with \$1,826,498,000 in corporate securities and \$1,030,000,000 in state and municipal securities in the past year.

The integrity of the investments distributed at that time, for the most part, was not questioned, otherwise the popularity and the then prevailing rates of interest would not have been possible.

It was felt something should be done to eliminate defaults and losses. There was a feeling of the necessity of standing together as against an inviting field for the many houses daily springing up having little or no capital, likewise experience, and what was more little care for what they offered, beyond their ability to market and their immediate profit.

Even before the Association was organized it was recognized there was need of standardizing laws governing the issuance and sale of municipal securities, those creating public service commissions, those dealing with taxation and many other statutes affecting the investment banker. Laws regulating the sale of securities were almost unknown and did not constitute a problem to face.

The idea of an organized association of dealers came about as a matter of evolution, the result of conferences on other matters between eastern and western dealers. The organization meeting called in 1912 in New York did not show a rush of applicants—the larger distributing houses held back until the purposes and policies of the young organization were fully established.

From the date of its organization until now, the Association has never deviated from the policies laid down by its founders—George B. Caldwell, Lewis B. Franklin, Allen G. Hoyt, William R. Compton, Warren S. Hayden, C. T. Williams and the others who carried it through the first years of its existence.

And now, ten years later, after a period of tremendous growth, not only in the size and number of issues offered to the public, but in the number of individual investors the Association still stands committed to its original policies of integrity and always the interests of the investors foremost. Today, however, it faces many new and important questions to be solved.

#### METHOD OF OPERATION

The methods of operation of the Association and the manner it carries on its work and shapes its policies are radically different from the average association.

The policies of the Association are laid down by the Board of Governors and its officers and those policies are executed by the several committees of the Association. The committees appointed each year are active in fact and not theoretically. Appointment as a member of a committee means work and travel in conferences.

It entails study and a large amount of correspondence. No individual is asked to serve unless willing to give of his time to the work to be undertaken.

At present we have nineteen committees:

Business Practice and Ethics,	Marine Securities,
Constitution and By-Laws,	Membership,
Education,	Municipal Securities,
Finance and Auditing,	Publicity,
Foreign Securities,	Public Service Securities,
Fraudulent Advertising,	Railroad Securities,
Government Bond,	Real Estate Securities,
Industrial Securities,	Syndicate Agreements,
Irrigation Securities,	Taxation.
Legislation,	

It might be well to emphasize one point which the average member may have overlooked. As a rule the chairmen of committees are members of the Board. The advantage of this is obvious—at any meeting of the Board there is an established contact with the work of the committee and a report of progress may always be had.

The Association maintains no lobby at Washington or elsewhere in the interests of special legislation. Our public position is well known—we seek no private advantage. We represent the investors of the country as distributors of legitimate securities. When legislation comes up for consideration and it is felt the investment bankers should be heard a special committee is appointed.

With an active Board of Governors and committees at work the Secretary is concerned in keeping in touch with all, in referring matters between committees, carrying out the programs mapped out and conducting the general business of the Association. The Secretary is a secretary in fact, and the duty of appearing at hearings and stating the position of the Association on any public question comes from the President, Board of Governors, or its committees.

#### GROUP ORGANIZATIONS

As now organized the Association is prepared to meet any national or local situation without delay. Before the Group idea was put into force it was somewhat of a task to handle local legis-

lation and protect the interests of all. Usually local committees were appointed with the result that much time was lost in perfecting the organization of a working committee and allowing the committee time in which to familiarize itself with any given situation.

Now, however, the Association has organized sixteen groups throughout the country, viz.:

California Group,	New England Group,
Central States Group,	Northern Ohio Group,
Eastern Pennsylvania Group,	Ohio Valley Group,
Michigan Group,	Pacific Northwest Group,
Minnesota Group,	Rocky Mountain Group,
Mississippi Valley Group,	Southeastern Group,
New Orleans Group,	Southwestern Group,
New York Group,	Western Pennsylvania Group.

Membership in the local group is restricted to members of the national organization, under a constitution laid down by the Board of Governors. Each group has its own officers and executive committee, the national association being represented by a member of the Board of Governors on the local executive committee, if the national organization has a Governor or officer in that particular territory.

Local matters are handled under the direction of the group, subject only to the general policies of the national association. The committees of the general association coöperate with the local group toward the desired end.

With the inauguration of the group system came a great increase in membership of the Association. Those houses outside of the Association at once realized the value of membership.

#### MEMBERSHIP IN THE ASSOCIATION

The Association stands committed to policies designed to protect the interests of the investing public and the dealer in investment securities whether within the organization or without.

No house is admitted to membership until it has been subjected to a very thorough investigation. All applications must be endorsed by two members. The local group, in the territory where the applicant does business, through its executive committee voices its approval or otherwise; questionnaires are secured from



members in addition to the endorsers and copies of all circulars on issues over \$100,000 handled during the preceding two years must be filed. No house is eligible for membership if not in business two years, unless the principals have had that length of experience and are recognized as bond men by the fraternity.

Copies of the information gathered and circulars are transmitted to each member of the Membership Committee. The Committee votes for or against admittance. No final action is taken on any application after submission to the Committee until such action is reviewed by the Board of Governors. Inasmuch as the Board meets but four times annually, members are admitted only on such dates.

Starting August 8, 1912 we carried one hundred and eighty-one Main and thirteen Branch office members on our rolls. Today we carry five hundred and fifty-five Main and two hundred and fifty-eight Branch office members, an increase in nine years of three hundred and seventy-one or 200%. Since September 1, 1920, ninety-six houses have been admitted to membership.

#### THE ASSOCIATION AND THE PUBLIC

The public in its day to day business knows little or nothing of the Association and the work which it has carried forward during the past few years. Neither is the public familiar with the present policies of the Association.

The constitution of the Association prohibits the members from advertising the fact of their affiliation with the organization. The founders of the Association recognized the fact that the membership must stand for only the highest standards and that its personnel should include only houses of unquestioned integrity. To permit the advertisement of membership as an easy method of reaching the public was deemed unwise. Through all the years that the Association has existed all attempts to change the constitution in this respect have been voted down.

Membership today stands for certain definite principles; principles applying not alone to the class of securities handled by the members, but principles applying to the relation of one house to another. The investigations now carried on with respect to the admission of new members make it almost impossible for a house of questioned character to gain admission.

The Association carries forward no campaign for new members. The Association has been in existence sufficiently long to gain a reputation as to the position it occupies. The Association today represents 95% of the eligible investment banking houses of the United States.

#### PAST ADMINISTRATIONS

I wish, at this point, to review just briefly the past history of the Association under former Presidents.

Mr. George B. Caldwell (then with the Continental and Commercial Trust & Savings Bank, Chicago) is known as the "Father of the Association" and was its president from 1912 to 1914. The first year under the administration of President Caldwell was largely given over to the perfection of a working organization. The membership at the time comprised but one hundred and eighty-one Main offices.

The Legislative Committee at that time endeavored to lend aid in framing the new income tax law and through its good work and that of counsel, did a great deal to get some features of the law changed to the advantage of both the government and investor.

The Committee on Taxation undertook the study of a subject far reaching and full of deep interest. The subject was so broad and so important that the first year was given over largely to research work.

Members of the Association will recall that during President Caldwell's administration the Committee on Taxation, wanting to base its work on some careful study of its problem, presented an extended report which appeared in the form of a book entitled "Principles of Taxation."

The Committee on Public Service Corporations had little difficulty in finding a field for its efforts. One of the first things which the committee did was to issue a compilation of the laws of the various states having public utility commissions. This compilation was of value to all houses handling that class of securities. The Committee also gave its attention to cooperating with the commissions throughout the country in putting into effect new ideas in commission regulation.

During the second year of President Caldwell's administration the Association worked along more definite lines. Blue sky legislation had begun to appear in more states of the union. It was

during this administration that suits to test the validity of the Michigan and Iowa blue sky laws were instituted in the Federal Courts. The lower Federal Courts handed down sweeping decisions holding the Michigan and Iowa laws unconstitutional.

The Association on October 19, 1914 appeared at a hearing before the Interstate Commerce Commission in the "Five Per Cent Railroad Rate Case." A special committee of twenty of our most representative members dealing in railroad bonds was chosen, fifteen of whom went to Washington and presented evidence on the questions of the rise and fall in prices, condition of markets and possible future financing, the cost of which has to do with the annual fixed charges and consequently the question of rates. The arguments were thereby broadened to a consideration of the "shipper," the "carrier," the "investor," the three factors of prime importance in all railroad operations.

The effects of the European war starting in 1914 were felt in only a small degree during the administration of President Caldwell. It is true that the security markets were demoralized for three months following the close of the stock exchanges of the country.

Mr. A. B. Leach of A. B. Leach & Co., Inc., New York, succeeded President Caldwell in 1914 and was president for one year ending his term of office at the annual convention in 1915.

The Railroad Securities Committee during the administration of President Leach began active work on a study of railroad mortgages. The problem was of such magnitude, involved such intricate questions as railroad accounting and management that it was not possible for the committee in one year to accomplish more than to map out a program and undertake some initial work. Among the questions considered by the committee, were the following:

- Sinking funds,
- Maintenance charges,
- Stock without par value,
- Long term bonds,
- General mortgage or refunding issues.

John E. Oldham as Chairman of the Public Service Securities Committee was successful during this administration in arranging with the Lawyers Co-operative Publishing Company of Rochester

to undertake the work of editing, indexing, annotating and publishing the decisions of the public utility commissions throughout the country. This was one of the distinct steps forward during the year.

The Association having now become more permanently established was finding that its field of work led not only to the protection of the investing public against "get-rich-quick" schemes, but as well to the consideration of many of the technical questions which the investment banker faced in his everyday work. Accordingly during this year it considered the problem of drainage bonds and the conditions which surrounded their issuance and sale. Consideration was also given to special assessment bonds.

The Committee on Foreign Securities placed statistical information regarding American securities at the disposal of financial houses and investors in certain of the large European centers and also devoted its time to securing reliable statistical information as to the finances of foreign countries for the benefit of the Association members.

Since that time the Association has maintained in the large financial centers of Europe, the following publications:

1. Standards Statistics Bureau system of bond and stock information.
2. Moody's Manuals.
3. Moody's Analyses of railroad and public service securities.

With the retirement of Mr. Leach from the presidency, Mr. Lewis B. Franklin (then with the Guaranty Trust Co. of New York), succeeded him and continued in the presidency during 1916 and 1917. During the first year of the administration of President Franklin, the Committee on Reclamation Securities sprang into existence and through its efforts issued a volume containing a synopses of all of the drainage laws of the United States.

Late in 1915 the Ohio blue sky law was attacked in the Federal Court of the state by dealers threatened with prosecution under it. The suits brought necessarily involved the important principles for which we had been contending and it was deemed necessary to the Association to obtain leave to file a brief before the court. The case was argued in Cincinnati and a decision

handed down in February, 1916 holding the law unconstitutional. This made a total of six federal decisions rendered by fourteen federal judges holding the so-called blue sky acts invalid. In the Ohio brief, as in other briefs filed by the Association, particular emphasis was laid on the principle that the buying and selling of securities could not be made the subject of discretionary license and control.

A large part of the work of the Association during 1915 and 1916 was devoted to municipal securities legislation in different states, particularly in New Jersey and New York. The Association should feel credited with having made it possible to obtain in New Jersey a single standard bonding act based in large part on the proposal urged by it. This act has done away with a great multiplicity of formerly conflicting statutes. It provides for the serial bond, maturity of which is limited to the life of the improvement for which the bonds are issued.

In New York we co-operated in starting the movement for revised municipal bond legislation and then placed our services at the disposal of the state and municipal authorities interested in the measures proposed. We were thus able to present the Association's recommendations to them and to co-operate in the actual drafting of bills. Unfortunately the New York bill failed of passage at that time.

The Association's work on the revision of the Federal Revenue Law, especially the income tax in this year was extensive and its results of much importance. On March 31, 1916 the Internal Revenue Department published a ruling holding that interest and dividends payable to non-resident aliens were subject to the income tax. Suit was subsequently filed to test the validity of this ruling and the decision handed down with judgment for the plaintiff for the full amount of the coupon without deduction of the tax. The judgment of the lower court was sustained by the appellate term on July 3, 1916.

The Association also obtained from the Department a formal ruling holding that members of a partnership were entitled in their individual returns to take their pro rata share of deductions of the income received by the partnership on municipal bonds. By far the most important work of that year, if we except the submission of the blue sky case to the Supreme Court was that

connected with the Federal Revenue Law. The matters involved included:

- First: The proposal to do away with the system of "withholding at the source" on interest on corporation bonds.
- Second: A proposal to make more drastic and effective the mild provision in the former law directed against the use of the so-called tax free covenant.
- Third: The taxation of non-resident aliens and foreign corporations on interest and dividends.
- Fourth: The taxation of partnerships as corporations.
- Fifth: An amendment of the income tax law urged by the Association with respect to losses in trade.
- Sixth: An amendment urged by the Association permitting the deduction by members of a partnership of their pro rata share of interest on municipal bonds and dividends from corporate stock received by the partnership.
- Seventh: Possible changes with respect to limited partnerships.
- Eighth: Changes with respect to the normal tax and surtax.
- Ninth: A possible amendment of the provision permitting corporations to deduct interest on indebtedness secured by collateral and subject to sale.
- Tenth: The new inheritance or estate tax.

The first report of the Committee on Education was presented at the Cincinnati convention of the Association during President Franklin's administration. The first work of the Committee was to ascertain the sentiments of the Association and the work of the Committee during that year was largely in laying foundations for the work which has resulted in its issuance of six volumes on different phases of investment banking.

The close of President Franklin's last term of office came in 1917, some six months after our entry in the European war. The country at that time was just beginning to feel the effects of European buying in our markets with a result that a new impetus had been given to the industries of the United States.

With the speeding up of our industrial life came the necessity for further financing on the part of corporations and this reflected itself in the work of the Association in the appointment of an Industrial Securities Committee which made its first report in November 1917.

The most important event that occurred in the matter of legislation took place when the Supreme Court of the United States

reversed the lower federal courts, holding the blue sky laws of Michigan, South Dakota, Iowa and Ohio to be constitutional. Federal taxation continued to have the attention of the Taxation Committee throughout the year.

The Municipal Securities Committee in conjunction with the United States Mortgage and Trust Company of New York worked out a plan whereby members might file copies of legal papers and opinions relating to the issuance and sale of municipal securities. Any member by application to the depository may secure certified copies of all papers upon payment of a nominal charge. The value of the institution of this system of filing will become more apparent as time goes on and investment banking houses retire from business.

Mr. Warren S. Hayden, of Hayden, Miller & Co., of Cleveland, succeeded President Franklin in 1917, carrying the Association through the period just after our entry into the European war. During that year the Committees on Taxation and Legislation working through a joint sub-committee and in coöperation with our counsel, carried on a work of study and suggestion in relation to federal taxation dealing with proposals for new taxation and also with interpretation and administration of existing laws.

The Committee on Fraudulent Advertising responding on behalf of the Association to a request of the Capital Issues Committee, developed a plan for so co-ordinating and stimulating the efforts of existing agencies federal, state and voluntary as to use effectively the data obtained by the Capital Issues Committee to the end that the distribution of non-meritorious securities could be stopped.

The Municipal Securities Committee had special war problems notably as to the subjection to federal taxation of the income from municipal bonds.

The Committee on Public Service Securities dealt with those trying questions rising from the diminished net earnings of the utilities and the war time restrictions upon issues of new capital.

A special committee was appointed and took part in conferences at Washington when the War Finance Corporation Act was being considered by Congress.

The needs of the federal government for means to carry on the war had now reached such a magnitude that it was necessary to

organize the liberty loan campaigns more systematically. We may well point with pride to the fact that of the twelve federal reserve districts throughout the United States, nine of the chairmen were from member houses of the Association. We may point with equal pride to the fact that ex-President Franklin became the Director of the War Loan Organization in Washington. The investment bankers of the country took a unique part in the financing of the liberty loans. The liberty loans were in direct competition with their own business, but notwithstanding this they not only sent men to the colors, but what was left of their greatly depleted organization was in turn, turned over to the government in order to make the Liberty Loan campaigns a success.

Mr. William G. Baker, of Baker, Watts & Co. of Baltimore, was elected to the presidency in 1918 and held office until the 1919 convention.

The Municipal Securities Committee under his administration was able to secure new municipal laws in Georgia and Alabama. It was during the administration of President Baker that the railroads throughout the country were taken over under governmental control as a war time measure. This raised a great many problems which had the consideration of the Railroad Securities Committee. There was at the time a great deal of agitation throughout the country looking to governmental ownership and to this end, the committee devoted a great deal of study. If the railroads were to be returned to their original owners, it was thought they should be returned only under such changed conditions that it would insure adequate earnings.

The Committee on Public Service Securities during that year devoted its energies to the solution of questions relating to water power, wire lines, street railways, artificial gas and electric light and power companies.

Mr. George W. Hodges of Remick, Hodges & Co. of New York, succeeded William G. Baker to the presidency in 1919.

To President Hodges fell the task of carrying the Association through the early days following the signing of the armistice. That year the administration of President Hodges by comparison lacked much of the dramatic character of those immediately preceding, both with regards the country and Association.



Probably the most important legislation passed during President Hodges' administration was the Esch-Cummins law relating to railroads. For the first time during the thirty-three years of its existence the Interstate Commerce Commission was given responsibility of not only providing fair rates and service for shippers and travelers, but also for the maintenance of the financial integrity of the transportation corporations of the country.

The Foreign Securities Committee under the chairmanship of Mr. Thomas W. Lamont, gave its attention to co-operation with the Council of Foreign Bondholders in London and appointed sub-committees to coöperate with foreign bankers on American, British and French securities.

During all of these years the Education Committee had been carrying on its work quietly and had produced four books which were placed on sale.

The Committee on Legislation devoted itself to blue sky legislation in the states of Maryland, New Jersey, Massachusetts, Rhode Island, New York, Louisiana, Kentucky, Indiana, Mississippi, Georgia, and also proposed federal legislation looking to the regulation of sale of securities by the federal government.

The Taxation Committee found itself confronted with a large program which dealt with the tax free covenant ruling, the taxability of municipal bond discount, the proposed amendment to the constitution permitting the levying of a tax on income from municipal and government bonds. The Committee also devoted considerable time to the Personal Service Corporation Act, Simplification Act and the Soldiers' Bonus Bill.

One of the outstanding developments under the administration of President Hodges was the institution of the group system. It had been felt for a great many years that the work of the Association could be better carried on through the medium of local groups composed of members of the Association.

#### BULLETIN SERVICE

The "I. B. A. of A. Bulletin" has since the organization of the Association been the official organ of the Association. It has not been the purpose of the Bulletin to usurp any of the functions of the so-called commercial financial papers. The material which has appeared in the Bulletin has been what might be termed "cold

facts" dealing wholly with laws affecting the business of investment banking, rulings or interpretations of those laws and such other information as might be of interest to investment bankers.

All reference to matters purely personal has been eliminated from the Bulletin. No attempt was made to place it on par with financial magazines which would necessitate the soliciting of advertising. The scope of the Bulletin has been considerably broadened with a result that many articles have appeared by various members of the Association which have operated more or less in the way of a discussion. These articles have been concerned mostly with advertising and the distribution of bonds. We are always seeking for new material which will provoke discussion and interest within the ranks of the membership.

There has been at different times in the past, discussion as to the advisability of enlarging the field of activity of the Bulletin, accepting paid advertising and placing it more or less in competition with the financial magazines. We do not believe that any such step is politic. The Bulletin of the Association should continue to cover its field of transmitting information to members, placing before them laws and rules and regulations interpreting those laws. We believe that the Bulletin can be so broadened that it can contain more of human interest and still not usurp functions of financial magazines.

### CONVENTIONS

Since the organization of the Association the members have convened annually for the discussion of subjects of importance to the investment bankers of the country, to discuss ways and means for the better distribution of securities and to discuss questions of public finance and taxation so vital to investment banking. In addition the committees of the Association have submitted reports showing work carried forward during the year.

The conventions have been one of the greatest factors in creating new friendships, and permitting investment bankers in the various parts of the country to broaden their acquaintance. This in itself is an accomplishment not to be minimized. When several hundred dealers are brought together annually new business connections are certain to spring into existence.

The selection of a place of meeting has been considered always

from the standpoint of the benefits to be derived from meeting in the cities selected. The conventions have not been allotted to cities on the basis of entertainment provided by local members, although the local members have always provided very attractive programs.

#### EDUCATION COMMITTEE

One committee in particular of the Association, deserves the unqualified thanks of the members for its continuous labors for over five years. In 1916, Lawrence Chamberlain, Erastus W. Bulkley and the late Albert W. Bullard were appointed as members of the Education Committee. The Committee carried forward its program until the death of Mr. Bullard in 1920 and since that time Mr. Chamberlain and Mr. Bulkley have continued the work.

Three years were spent in the preparation of a program and laying the foundations for a broad and comprehensive plan of work. The Committee has now completed six volumes which are:

“Course of Study—Corporation Finance and Investment”

“Course of Study—The Stock Exchange Business”

“Course of Study—Railroad Securities”

“Course of Study—Industrial Securities”

Text—“The Legal Aspects of the Transfer of Securities”

Text—“Individual and Corporation Mortgages”

This by no means concludes the work of the Committee. Within the next year further books will be issued on public utilities and other subjects.

The Committee, through the Secretary's Office, has communicated with 486 colleges and universities in all parts of the United States. Of this number 177 replied stating they offered courses in corporation finance and investment. One hundred and fifty-five did not reply and 154 offered no such course. The Committee distributed complimentary copies to the department having charge of this course of instruction.

In this way the Association has established a point of contact with schools of learning and is thus enabled to be of service in presenting the viewpoint of the distributors of securities.

#### THE PRESS

Since the organization of the Association we have coöperated with the Press of the country. The meetings of the convention are

open to all—there are no executive sessions—and the representatives of the Press are furnished with hourly verbatim stenographic copies of our daily proceedings. This service is without cost to the newspapers and so far as we know no other association of our size has attempted it.

Harry Rascovar of New York has since the first convention acted as Director of Publicity and is known the country over as a genius for convention publicity organization. Unlike other organizations the representatives of the Press do not have to seek out individuals for interviews. By communicating with Mr. Rascovar, the man sought will be brought to the press representative.

It is the purpose of the Press of the country to disseminate news to the reading public. And along that line we have since our organization not endeavored to break into print on every occasion for purely publicity and advertising reasons. We seek no publicity until we have something of interest to say, or a position to take, which advises the public of our attitude on particular questions.

This type of publicity alone is of value to any organization.

#### WHAT MEMBERSHIP MEANS TO A HOUSE

Membership in the Association cannot be measured by a dollar yardstick. The membership of the Association comprises only houses of known character. The principles upon which the Association is founded are well known; absolute integrity in all dealings with the investing public and among members, laws which protect the rights of investors, uniformity of laws dealing with the purchase and sale of securities, keeping in mind always whether any legislation is for the best interests of the bondholder.

The members of the Association have all been subjected to a thorough investigation and no house is admitted except upon unanimous vote of the Membership Committee and approval by the Board of Governors.

Membership means that when any question dealing with investment banking comes up for consideration it will be studied and handled in a collective manner, and at a minimum expense.

### WORK OF THE COMMITTEES

Looking back over the nine years since our organization we find the great bulk of the work has been carried forward by the officers and committees. The original committees have since been enlarged in number, but not one has been dropped for want of a field of operation.

Thus far 463 individuals have been called to committee service during the years since August 8, 1912.

The personnel of the committees has been selected with deliberation and care exercised to select an individual who has a knowledge of the work to be undertaken. Committeemen are not selected on the basis of any name adding prestige, but on the basis of the qualifications and willingness of any individual to give of his time to the work of the committee.

### OFFICERS AND GOVERNORS

Since our organization, 105 men have served as officers and on the Board of Governors. Membership on the Board or as an officer means the devotion of a large amount of time in several ways, viz.; as a chairman of a committee, attendance at committee meetings, attendance at meetings of the Board as well as devoting a large amount of time weekly to Association affairs.

The Board of Governors has been in session thirty-nine times since 1912, totaling fifty-five days. Many of the members have traveled across the continent to attend, all without compensation in any form. The average attendance has been twenty to twenty-five, out of a membership of thirty-four, and in a great many instances attendance has been 100%.

In 1919 a departure was made in the matter of the Spring meetings of the Board. Invitations were extended to all who had once served the Association either as an officer or Governor. In taking this step it seemed for the best interests of the Association to recall once annually, for advice those who had previously laid down our policies. The result is our Spring meetings have been attended by an increasing number of former officers and Governors. This departure has a two-fold value—it gives to the present Board the benefit of the counsel and advice of the men who have served the Association, it develops a continuity of

policy and serves to keep former executives in touch with the work of the organization.

The Spring meeting is the half year mark between conventions. The conventions bring together the representatives of member houses, committee men as well as Governors for an annual accounting and reports on what has gone forward during the preceding year. There is an exchange of ideas and the formation of new friendships. While in the larger sense the annual meetings are formal affairs, yet there has grown up an intangible social and friendly feeling.

Unlike this the mid-year conference in the Spring is a purely formal meeting of the governing body, former officers and committee chairmen with but a single purpose, i. e., to deliberate upon the policies of the Association, to review reports of progress and for the consideration of remedial and coöperative action.

#### IN CONCLUSION

The position which the Investment Bankers Association of America today enjoys as a national body has been made possible only through able leadership of presidents who have not been figureheads, but who have given unsparingly of their time. Each president has been backed by a strong Board of Governors and inasmuch as only one-third of the membership of the Board of Governors changes each year, a majority of each new Board has been composed of men who have been most active in the committee work of the Association. The officers, the Board of Governors and the committees could not have accomplished the many things which they are credited with if it had not been for a united membership, the personnel of which has always responded quickly to the requests for services. The future activities of this Association will reflect credit on the investment banking business just so long as the Association stands for sound business principles, just and adequate laws and high ideals regarding the investment securities they offer to the public.

It has been my honor and pleasure to serve first as the Secretary of the organization committee and as the Secretary of the organization meeting when the Association was founded and also to be elected the first Secretary of the Association. During all of these years, Mr. Clayton G. Schray, our present Assistant Secre-

tary, has been my able assistant, and, with a small competent organization in the Secretary's Office, we have been able to carry on the work assigned to us by the officers and the Board of Governors.

The coöperation which we have received from the press and various associations, some of which have been working along similar lines as ours and from the individual members, has been extremely helpful and all that could possibly be desired. The foregoing but briefly tells the story of the Investment Bankers Association of America. We still have a great field of work ahead of us and with an increasing volume of securities and with the growing number of investors our obligation becomes greater each year. Every effort put forth by this Association to better securities that the principal and interest may be safeguarded and to throw light on that class of people that would swindle savers of this country, will be applauded by the public generally. The members of this Association will be recognized as the reliable source from which information can be sought and securities purchased. Placing our standards high will not curtail our business, but rather increase it and the recognition which we receive from the public will follow as a matter of course.

In conclusion I take this opportunity to thank our past presidents and members of the Board of Governors and the membership in general for the courteous coöperation which they have always accorded this office.

FREDERICK R. FENTON,  
*Secretary*

## CONVENTIONS

1912	November 21st and 22nd . . . . .	New York
1913	October 28th, 29th and 30th . . . . .	Chicago
1914	November 12th and 13th . . . . .	Philadelphia
1915	September 20th, 21st and 22nd . . . . .	Denver
1916	October 2nd, 3rd and 4th . . . . .	Cincinnati
1917	November 12th, 13th and 14th . . . . .	Baltimore
1918	December 9th, 10th and 11th . . . . .	Atlantic City
1919	October 20th, 21st and 22nd . . . . .	St. Louis
1920	October 4th, 5th and 6th . . . . .	Boston
1921	October 31st, November 1st and 2nd . . . . .	New Orleans



# **DATES AND PLACES—BOARD OF GOVERNORS MEETINGS**

Chicago . . . . .	Sept. 20, 1912
New York . . . . .	Nov. 12, 1912
Baltimore . . . . .	Jan. 31, Feb. 1, 1913
St. Louis . . . . .	May 16, 17, 1913
Cleveland . . . . .	August 8, 9, 1913
Chicago . . . . .	Oct. 23, 29, 30, 1913
Philadelphia . . . . .	Jan. 9, 1914
Cincinnati . . . . .	Apr. 24, 25, 1914
Boston . . . . .	Aug. 14, 1914
Philadelphia . . . . .	Nov. 11, 1914
New York . . . . .	Jan. 22, 1915
White Sulphur Springs . . . . .	May 14, 1915
Portland, Me. . . . .	July 23, 1915
Denver . . . . .	Sept. 19, 20, 1915
New York . . . . .	Nov. 5, 1915
Baltimore . . . . .	May 17, 1916
Kansas City . . . . .	June 5, 6, 1916
Cincinnati . . . . .	Oct. 1, 1916
New York . . . . .	Nov. 27, 1916
White Sulphur Springs . . . . .	Apr. 20, 21, 1917
Chicago . . . . .	July 19, 1917
Baltimore . . . . .	Nov. 11, 12, 1917
New York . . . . .	Jan. 18, 1918
Baltimore . . . . .	Feb. 21, 1918
White Sulphur Springs . . . . .	May 24, 25, 1918
Detroit . . . . .	Aug. 2, 3, 1918
Atlantic City . . . . .	Dec. 8, 1918
New York . . . . .	Feb. 7, 1919
White Sulphur Springs . . . . .	May 16, 17, 1919
Chicago . . . . .	Aug. 1, 1919
St. Louis . . . . .	Oct. 19, 1919
New York . . . . .	Dec. 5, 1919
New York . . . . .	Feb. 12, 1920
White Sulphur Springs . . . . .	May 7, 8, 1920
New York . . . . .	July 16, 1920
Boston . . . . .	Oct. 3, 1920
Atlanta . . . . .	Jan. 14, 1921
White Sulphur Springs . . . . .	May 5, 6, 7, 1921
Milwaukee . . . . .	July 22, 1921
New Orleans . . . . .	Oct. 30, 31, 1921

## PRESIDENTS

1920-21

ROY C. OSGOOD . . . . . Chicago  
First Trust and Savings Bank

1919-20

GEORGE W. HODGES . . . . . New York  
Remick, Hodges & Co.

1918-19

WILLIAM G. BAKER, JR. . . . . Baltimore  
Baker, Watts & Co.

1917-18

WARREN S. HAYDEN . . . . . Cleveland  
Hayden, Miller & Co.

1915-17

LEWIS B. FRANKLIN . . . . . New York  
*Then with*  
Guaranty Trust Company of New York

1914-15

A. B. LEACH . . . . . New York  
A. B. Leach & Co., Inc.

1912-14

GEORGE B. CALDWELL . . . . . Chicago  
*Then with*  
Continental and Commercial Trust and Savings Bank

## VICE PRESIDENTS

WILLIAM G. BAKER, JR. . . . . 1914-16 . . . . . Baltimore  
Baker, Watts & Co.

HOWARD F. BEEBE . . . . . 1919-21 . . . . . New York  
Harris, Forbes & Co.

JOHN E. BLUNT, JR. . . . . 1914-17 . . . . . Chicago  
Merchants Loan & Trust Co.

ROBERT K. CASSATT . . . . . 1920-21 . . . . . Philadelphia  
Cassatt & Co.

LAWRENCE CHAMBERLAIN . . . . . 1917-18 . . . . . New York  
Lawrence Chamberlain & Co., Inc.

WILLIAM R. COMPTON . . . . . 1914-17 . . . . . St. Louis  
William R. Compton Co.

DANIEL K. DRAKE . . . . . 1917-18 . . . . . Los Angeles  
Drake, Riley & Thomas

## VICE PRESIDENTS—CONTINUED

JOHN W. EDMINSON	1914-15	San Francisco
	William R. Staats Co.	
C. EDGAR ELLIOTT	1915-16	Chicago
	Breed, Elliott & Harrison	
A. C. FOSTER	1915-16	Denver
	Bankers Trust Co.	
LEWIS B. FRANKLIN	1912-14	New York
	Guaranty Trust Company of New York	
N. PENROSE HALLOWELL	1920-21	Boston
	Lee, Higginson & Co.	
WARREN S. HAYDEN	1912-14	Cleveland
	Hayden, Miller & Co.	
GEORGE W. HODGES	1918-19	New York
	Remick, Hodges & Co.	
ALLEN G. HOTT	1914-17	New York
	National City Company	
A. B. LEACH	1912-14	New York
	A. B. Leach & Co., Inc.	
JOHN E. OLDHAM	1917-20	Boston
	Merrill, Oldham & Co.	
ROY C. OSGOOD	1918-20	Chicago
	First Trust and Savings Bank	
CHARLES A. OTIS	1914-15	Cleveland
	Otis & Co.	
LEWIS H. PARSONS	1918-19	Philadelphia
	Graham, Parsons & Co.	
J. HUGH POWERS	1920-21	St. Louis
	Mercantile Trust Co.	
JOHN A. PRESCOTT	1920-21	Kansas City
	Prescott & Snider	
GEORGE K. REILLY	1919-20	Philadelphia
	Reilly, Brock & Co.	
*FRANK W. ROLLINS	1912-15	Boston
	E. H. Rollins & Sons	
CHARLES H. SCHWEPPE	1918-19	Chicago
	Lee, Higginson & Co.	
J. SHEPPARD SMITH	1918-19	St. Louis
	Mississippi Valley Trust Co.	

\*Deceased

## VICE PRESIDENTS—CONTINUED

BARRETT WENDELL, JR.	1916-17	Chicago
	Lee, Higginson & Co.	
H. P. WRIGHT	1916-17	Kansas City
	H. P. Wright Investment Co.	
FREDERICK A. YARD	1917-18	New York
	P. W. Chapman & Co., Inc.	

## SECRETARY

FREDERICK R. FENTON	1912-21	Chicago
	Fenton, Davis & Boyle	

## ASSISTANT SECRETARY

CLAYTON G. SCHRAY	1912-21	Chicago
	Investment Bankers Association of America	

## TREASURERS

C. T. WILLIAMS	1912-14	Baltimore
	Fidelity Securities Corporation	
J. HERNDON SMITH	1914-16	St. Louis
	Smith, Moore & Co.	
J. SHEPPARD SMITH	1916-17	St. Louis
	Mississippi Valley Trust Co.	
GEORGE W. KENDRICK, 3rd	1917-18	Philadelphia
	Geo. W. Kendrick 3rd & Co.	
H. L. STUART	1918-19	Chicago
	Halsey, Stuart & Co., Inc.	
*ALBERT W. BULLARD	1918	Chicago
	Northern Trust Co.	
WATKIN W. KNEATH	1919-21	Chicago
	National Bank of the Republic	

## GOVERNORS

ARTHUR M. ANDERSON	1918-21	New York
	J. P. Morgan & Co.	
WILLIAM G. BAKER, JR.,	1916-18	Baltimore
	Baker, Watts & Co.	
HOWARD F. BREER	1916-19	New York
	Harris, Forbes & Co.	

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\*Deceased

## GOVERNORS — CONTINUED

JOHN E. BLUNT, JR.,	1913-14	Chicago
	Merchants Loan & Trust Co.	
JOHN G. BROGDEN	1920-23	Baltimore
	Strother, Brogden & Co.	
MCPHERSON BROWNING	1919-22	Detroit
	Detroit Trust Company	
E. W. BULKLEY	1912-15	Chicago
	Spencer Trask & Co.	
STEDMAN BUTTRICK	1912-14	Boston
	Estabrook & Co.	
ROBERT K. CASSATT	1918-20	Philadelphia
	Cassatt & Co.	
LAWRENCE CHAMBERLAIN	1914-17	New York
	Lawrence Chamberlain & Co., Inc.	
GEORGE C. CLARK, JR.	1915-17	New York
	Clark, Dodge & Co.	
H. B. CLARK	1912-13	New York
	White, Weld & Co.	
WILLIAM R. COMPTON	1914-17	St. Louis
	William R. Compton Co.	
PHILIP S. DALTON	1918-22	Boston
	Coffin & Burr, Inc.	
RICHARD M. DAY	1919-22	Denver
	Van Riper, Day & Co.	
LYNN H. DINKINS	1915-18	New Orleans
	Interstate Trust & Banking Co.	
WALLACE B. DONHAM	1918-19	Boston
	Then with Old Colony Trust Co.	
DANIEL K. DRAKE	1916-17	Los Angeles
	Drake, Riley & Thomas	
HENRY L. DUER	1912-14	Baltimore
	W. W. Lanahan & Co.	
CHARLES R. DUNN	1912-14	Detroit
	Union Trust Company	
DAVID A. EDGAR	1916-18	Milwaukee
	Edgar, Ricker & Co.	
C. EDGAR ELLIOTT	1912-15	Chicago
	Breed, Elliott & Harrison	

## GOVERNORS—CONTINUED

JAMES C. FENHAGEN	1920-23	Baltimore
	Robert Garrett & Sons	
REAMY E. FIELD	1915-18	Cincinnati
	<i>Then with</i>	
	Field, Richards & Co.	
W. M. L. FINE	1912-15	Chicago
	Dillon, Read & Co.	
A. C. FOSTER	1912-15	Denver
	Bankers Trust Co.	
DAVID R. FRANCIS, JR.	1919-22	St. Louis
	Francis, Bro. & Co.	
LEWIS B. FRANKLIN	1914-15	New York
	<i>Then with</i>	
	Guaranty Trust Company of New York	
J. A. FRASER	1920-23	Toronto
	Dominion Securities Corporation	
SAMUEL L. FULLER	1913-16	New York
	Kissel, Kinnicutt & Co.	
THOMAS B. GANNETT, JR.	1920-21	Boston
	Parkinson & Burr	
THOMAS S. GATES	1919-22	Philadelphia
	Drexel & Co.	
CHARLES H. GILMAN	1914-17	Portland, Me.
	Chas. H. Gilman & Co.	
JOHN W. HALLOWELL	1916-18	Boston
	Stone & Webster, Inc.	
N. PENROSE HALLOWELL	1919-20	Boston
	Lee, Higginson & Co.	
HOWARD F. HANSELL, JR.	1920-23	Philadelphia
	Redmond & Co.	
WARREN S. HAYDEN	1914-17	Cleveland
	Hayden, Miller & Co.	
R. S. HECHT	1918-21	New Orleans
	Hibernia Securities Co., Inc.	
*GEORGE GARR HENRY	1912-15	New York
	Wm. Salomon & Co.	
GEORGE W. HODGES	1915-18	New York
	Remick, Hodges & Co.	

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\*Deceased

## GOVERNORS—CONTINUED

JOHN W. HORNOR, JR.	1921	New York
	Dillon, Read & Co.	
ALLEN G. HOTT	1912-14	New York
	National City Company	
WALTER JANNEY	1918-19	Philadelphia
	Janney & Co.	
N. DEAN JAY	1913-15	Milwaukee
	<i>Then with</i>	
	Second Ward Savings Bank	
JAMES JENKINS	1918-19	San Francisco
	E. H. Rollins & Sons	
HAROLD KAUFFMAN	1912-15	St. Louis
	Kauffman-Smith-Emert & Co., Inc.	
GEORGE W. KENDRICK, 3rd	1912-17	Philadelphia
	Geo. W. Kendrick 3rd & Co.	
WILLIAM G. LERCHEN	1916-19	Detroit
	Watling, Lerchen & Co.	
B. C. LINGLE	1920-21	Chicago
	Harris Trust & Savings Bank	
RICHARD L. MORRIS	1915-18	New York
	Bankers Trust Co.	
H. C. McELDOWNEY	1917-20	Pittsburgh
	Union Trust Company	
CHARLES W. McNEAR	1912-17	Chicago
	C. W. McNear & Co.	
JOHN E. OLDEHAM	1914-17	Boston
	Merrill, Oldham & Co.	
GEORGE G. OLMSTED	1918-20	Chicago
	A. B. Leach & Co., Inc.	
ROY C. OSGOOD	1917-19	Chicago
	First Trust and Savings Bank	
CHARLES A. OTIS	1912-14	Cleveland
	Otis & Co.	
CHALLEN R. PARKER	1912-16	San Francisco
	<i>Then with</i>	
	Anglo & London Paris National Bank	
LEWIS H. PARSONS	1912-16	Philadelphia
	Graham, Parsons & Co.	

## GOVERNORS—CONTINUED

JOHN A. PRESCOTT . . . . .	1917-20 . . . . .	Kansas City Prescott & Snider
HENRY C. QUARLES . . . . .	1918-21 . . . . .	Milwaukee Henry C. Quarles & Co.
GEORGE K. REILLY . . . . .	1912-13 . . . . .	Philadelphia Reilly, Brock & Co.
GORDON REIS . . . . .	1918-21 . . . . .	Cincinnati Seasongood & Mayer
*STACY C. RICHMOND . . . . .	1916-18 . . . . .	New York Winslow, Lanier & Co.
*ROBY ROBINSON . . . . .	1917-20 . . . . .	Atlanta Robinson-Humphrey Co.
WILLIAM L. ROSS . . . . .	1915-16; 1920 . . . . .	Chicago Wm. L. Ross & Co., Inc.
CHARLES H. SCHWEPPE . . . . .	1912-13 . . . . .	Chicago Lee, Higginson & Co.
R. L. SCOVILLE . . . . .	1912-15 . . . . .	Pittsburgh Then with Ussing, Scoville & Co.
ARTHUR SINCLAIR, JR. . . . .	1919-22 . . . . .	New York Estabrook & Co.
J. HERNDON SMITH . . . . .	1912-14 . . . . .	St. Louis Smith, Moore & Co.
J. SHEPPARD SMITH . . . . .	1915-16 . . . . .	St. Louis Mississippi Valley Trust Co.
CHARLES L. STACY . . . . .	1915-18 . . . . .	Toledo Stacy & Braun
HAROLD STANLEY . . . . .	1918-21 . . . . .	New York Guaranty Company of New York
EUGENE M. STEVENS . . . . .	1912-16 . . . . .	Chicago Illinois Trust & Savings Bank
H. L. STUART . . . . .	1915-18 . . . . .	Chicago Halsey, Stuart & Co., Inc.
BENJAMIN F. TAYLOR . . . . .	1918-21 . . . . .	Chicago Taylor, Ewart & Co.
GEORGE H. TAYLOR . . . . .	1915-18 . . . . .	Chicago E. H. Rollins & Sons

\*Deceased



## GOVERNORS—CONTINUED

EUGENE E. THOMPSON . . . . .	1920-23 . . . . .	Washington
	Crane, Parris & Co.	
HENRY D. THRELL . . . . .	1920-23 . . . . .	Minneapolis
	Minnesota Loan & Trust Co.	
E. G. TILLOTSON . . . . .	1919-22 . . . . .	Cleveland
	Tillotson & Wolcott Co.	
WILL H. WADE . . . . .	1917-20 . . . . .	Denver
	Will H. Wade Company	
T. JOHNSON WARD . . . . .	1917-18 . . . . .	Philadelphia
	Cassatt & Co.	
S. W. WEBB . . . . .	1912-18 . . . . .	Boston
	Bond & Goodwin	
HARRY E. WEIL . . . . .	1912-15 . . . . .	Cincinnati
	Weil, Roth & Co.	
BARRETT WENDELL, JR. . . . .	1913-16 . . . . .	Chicago
	Lee, Higginson & Co.	
WILLIAM WEST . . . . .	1913-14 . . . . .	Philadelphia
	West & Co.	
EDWIN WHITE . . . . .	1916-19 . . . . .	St. Paul
	W. W. Eastman Company	
O. B. WILLCOX . . . . .	1918-21 . . . . .	New York
	<i>Then with</i>	
	Bonbright & Co., Inc.	
JAMES C. WILLSON . . . . .	1920-22 . . . . .	Louisville
	James C. Willson & Co.	
J. S. WILSON, JR. . . . .	1917-20 . . . . .	Baltimore
	J. S. Wilson, Jr., & Co.	
HERBERT WITHERSPOON . . . . .	1912-13; 1917-20 . . . . .	Spokane
	<i>Then with</i>	
	Spokane & Eastern Trust Co.	
DEAN G. WITTER . . . . .	1919-23 . . . . .	San Francisco
	Blyth, Witter & Co.	
H. P. WRIGHT . . . . .	1912-16 . . . . .	Kansas City
	H. P. Wright Investment Co.	
JAMES N. WRIGHT . . . . .	1916-19 . . . . .	Denver
	Banker Trust Co.	

*The President:* The next matter on the program is the Treasurer's report. Mr. Kneath, are you ready to make your report?

*The Treasurer:* Mr. President, and Gentlemen: It is very short.

## REPORT OF THE TREASURER

The Treasurer has the honor and pleasure to report that the Association is in a most satisfactory financial position; its net worth as of August 31, 1921, being \$109,257.39, compared to \$80,613.80 on the same date of last year; an increase of \$28,643.59.

### STATEMENT OF RECEIPTS AND DISBURSEMENTS FOLLOWS:

#### Balance, as of August 31, 1920:

Cash in bank and on hand..... \$19,232.41

#### RECEIPTS:

Annual dues.....	\$76,847.50	
Entrance fees.....	8,700.00	
Bulletin binders.....	12.75	
Educational books.....	2,745.17	
Reclamation books.....	22.50	
Interest on bank balance.....	1,281.01	
Interest on investments.....	4,559.22	
Securities sold.....	\$47,500.00	141,668.15
		<u>\$160,900.56</u>

#### DISBURSEMENTS:

Special Counsel.....	\$ 2,579.00
Office Counsel.....	2,400.00
Committee Counsel.....	5,282.06
Office Salaries.....	13,230.00
Convention expenses.....	3,067.45
Traveling expenses.....	1,006.90
Rent.....	4,360.00
Furniture and fixtures.....	238.20
Printing, stationery and postage.....	3,930.97
Telephone and telegraph.....	535.37
Publishing annual proceedings.....	3,772.02
Bulletin service.....	7,345.07
Dues—Chamber of Commerce U. S. A.....	300.00
Donation—Chamber of Commerce.....	1,000.00
Auditing.....	100.00
Sundry.....	739.13
Securities purchased.....	\$70,534.60
Blue sky summary.....	3,280.91
Stenographic reports.....	741.49
Book refund.....	4.80
Committee expenses.....	11,871.30
	<u>\$136,319.27</u>

#### Balance, as of August 31, 1921:

Cash in Bank and on hand.....	24,581.29
	<u>\$160,900.56</u>

## TENTH ANNUAL CONVENTION

## INVESTMENT ACCOUNT, AS OF AUG. 31, 1921

## SPECIAL INVESTMENT FUND:

	<i>Par Value</i>	<i>Cost</i>
(Representing Entrance fees—such fees being invested in U. S. Victory 4½% Notes on authorization of Board of Governors).		
\$21,000 U. S. Victory Loan 4½% Notes.....	\$21,000.00	\$20,242.90

## GENERAL INVESTMENT FUND:

\$30,000 U. S. Certificates of Indebtedness due Oct. 15, 1921.....	30,000.00	30,000.00
25,000 U. S. Certificates of Indebtedness due Dec. 15, 1921.....	25,000.00	25,000.00

## INTEREST INVESTED FUND:

\$ 6,000 U. S. Victory Loan 4½% Notes.....	6,000.00	5,847.39
	<hr/>	<hr/>
	\$82,000.00	\$81,090.29

The net worth of \$109,257.39, referred to above, is arrived at as follows:

Cash in bank and on hand.....	\$ 24,581.29
Investments (at cost).....	81,090.20
Accrued interest.....	1,208.39
Furniture and fixtures (at cost).....	2,377.51

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\$109,257.39

The Association has a safety deposit box in the Harris Safe Deposit Vaults where all its securities are kept. The box can be entered only in the presence of the President and Treasurer, Secretary and Treasurer, Assistant Secretary and Treasurer, President and Secretary or President and Assistant Secretary.

The books of accounts have been audited and the securities checked by Arthur Anderson & Co., Chicago, Certified Public Accountants.

I desire to record best thanks and appreciation to the Finance Committee, the Secretary, the Assistant Secretary and all the employees of the Secretary's office for their courtesy and coöperation at all times.

Respectfully submitted,

WATKIN W. KNEATH, *Treasurer*.

*The President:* Gentlemen, you have heard the report of the Treasurer. I think the President is clearly warranted in saying that the Association finds itself in good financial condition. Is there discussion or any question any of the members would like to have or ask in regard to the report? If not, and there is no objection, the report will be received and filed.

Mr. Browning, are you ready to make your Membership Committee report?

## REPORT OF MEMBERSHIP COMMITTEE

From September 1st, 1920, to October 15th, 1921, 95 houses were admitted to membership and 77 additional branch houses registered. Twelve applications were withdrawn at the request of the Committee, after careful investigation. There have been twenty-five resignations.

The membership on October 15th, 1921, was divided as follows:

Class A	209
Class B	265
Class C	82
Total	556 Members

In addition to the above, there are 258 branch houses registered.

During the past three years, the membership of the Association has increased from 399 to 555—an increase of 40%. Due to this rapid increase and to the fact that membership in the Association is regarded as a distinct asset to an investment house, the Committee believes that very careful consideration should be given to the advisability of enforcing more rigidly the rules regarding the admission of new members.

The Committee has availed itself of the valuable assistance of the Group Organizations and in no case has a firm been admitted without the approval of the Executive Committee of the Local Group. In several instances, applicants well recommended were denied membership at the suggestion of the Local Group.

At the White Sulphur Springs Meeting of the Board of Governors, the following resolution was adopted:

*“Resolved, That it is the sense of the Board of Governors that the Membership Committee shall submit for the approval of the Board, a list of the applicants approved by the Membership Committee for membership in the Association, before certifying the list to the Secretary.”*

The Membership Committee believes that every safeguard should be taken against the admission of firms who will not reflect credit on the Association, and that by complying with the Resolution, a further safeguard will be thrown around the new membership.

The Committee wishes to acknowledge the able assistance rendered by the Secretary's office and by the Executive Committees of the Local Group Organizations.

### MEMBERSHIP

	Class A	Class B	Class C	Total	Branch
Membership Sept. 1, 1920.....	148	255	82	485	212
Gains to Oct. 15, 1921.....	66	25	4	95	77
	214	280	86	580	289
Losses during same period.....	9	15	1	25	31
	205	265	85	555	258

## TENTH ANNUAL CONVENTION

	<i>Class A</i>	<i>Class B</i>	<i>Class C</i>	<i>Total</i>	<i>Branch</i>
Gains by Revision.....	4	4	0	8	0
	209	269	85	563	258
Losses by Revision.....	1	4	3	8	0
	208	265	82	555	258
Membership Oct. 15, 1921.....					

The following houses were admitted from September 1st, 1920, to October 15th, 1921:

Securities Sales Co. of Louisiana, Inc. . . . .	New Orleans
Frederick Pierce & Co. . . . .	Philadelphia
*National City Company of California . . . . .	San Francisco
Antonides & Company . . . . .	Denver
Haueisen & Jewett . . . . .	Indianapolis
Thomas D. Sheerin & Co. . . . .	Indianapolis
Watson, Williams & Co. . . . .	New Orleans
Vietor, Hubbell, Rea & Common . . . . .	Buffalo
George W. Beers . . . . .	Ft. Wayne, Ind.
L. F. Rothschild & Co. . . . .	New York
Southern Security Service Co. . . . .	Greensboro, N. C.
Lafayette South-Side Bank . . . . .	St. Louis
Ford & Porter . . . . .	St. Joseph, Mo.
Hitt, Farwell & Park . . . . .	New York
Mackay & Co. . . . .	New York
Will H. Wade Co. . . . .	Denver
Frank & Lewis . . . . .	Los Angeles
Bank of Italy . . . . .	San Francisco
Tucker, Robison & Co. . . . .	Toledo
Lincoln National Bank . . . . .	Ft. Wayne, Ind.
Home & Hibernian Bank . . . . .	Los Angeles
F. S. Moseley & Co. . . . .	Boston
A. L. Chambers & Co. . . . .	Buffalo
The National Bank of Commerce. . . . .	Columbus, O.
The City National Bank . . . . .	Columbus, O.
Parsly Bros. & Co. . . . .	Philadelphia
Stevens & Company . . . . .	Minneapolis
I. B. Tigrett & Company . . . . .	Jackson, Tenn.
Bartlett & Gordon, Inc. . . . .	Chicago
National Bank of Commerce. . . . .	Milwaukee
Guardian Trust & Savings Bank . . . . .	Toledo
Merchants Trust Company . . . . .	Winona, Minn.
Central Wisconsin Trust Company . . . . .	Madison, Wis.
Wise, Hobbs & Arnold . . . . .	Boston
Aronson & Company . . . . .	Los Angeles
American Express Company . . . . .	New York
W. M. Davis & Co. . . . .	Macon, Ga.
Philip L. Ray & Co. . . . .	Duluth
Dominick & Dominick . . . . .	New York
Reinhart & Bennet . . . . .	New York
Peters Trust Company . . . . .	Omaha
B. J. Baker & Company, Inc. . . . .	Boston
W. S. Hammons & Co. . . . .	Portland, Me.
Stevenson Bros. & Perry, Inc. . . . .	Chicago
Wistar, Carter & Co. . . . .	Philadelphia
Ohio Savings Bank & Trust Company . . . . .	Toledo

\* Reinstatement.

Beyer & Small . . . . .	Portland, Me.
The Union National Bank . . . . .	Seattle
Carstairs & Co. . . . .	Philadelphia
Thomas A. Biddle & Co. . . . .	Philadelphia
McClure, Smith & Co., Inc. . . . .	Sunbury, Pa.
Lincoln Trust Company . . . . .	Lincoln, Neb.
American Exchange National Bank . . . . .	Duluth
Stout & Co. . . . .	Pittsburg
The C. H. Geist Co. . . . .	Philadelphia
Reed A. Morgan & Co. . . . .	Philadelphia
Boles & Westwood . . . . .	Philadelphia
Bayly Brothers . . . . .	Los Angeles
Corn Exchange Bank . . . . .	New York
Old National Bank . . . . .	Grand Rapids
California Company . . . . .	Los Angeles
First National Bank . . . . .	Sharon, Pa.
Mercantile Trust Company . . . . .	San Francisco
Greenshields & Co. . . . .	Montreal
J. A. Hogle & Co. . . . .	Salt Lake City
Harrison, Smith & Co. . . . .	Philadelphia
Lane, Piper & Jaffray, Inc. . . . .	Minneapolis
Wyant & Company . . . . .	Chicago
Strassburger & Co. . . . .	San Francisco
Bartlett, Knight & Co. . . . .	Chicago
Theis & Diestelkamp Investment Co. . . . .	St. Louis
Palmer Bond & Mortgage Co. . . . .	Salt Lake City
City National Bank . . . . .	Duluth
Wells, Deane & Singer . . . . .	Pittsburgh
Sutherland-Barry & Co., Inc. . . . .	New Orleans
Lewis H. Stanton & Co. . . . .	New Orleans
Wheeler & Woolfolk . . . . .	New Orleans
M. W. Newman & Sons . . . . .	New Orleans
Neuhaus & Company . . . . .	Houston, Texas
Salomon Bros. & Hutzler . . . . .	New York
Henry C. Quarles & Co. . . . .	Milwaukee
Fidelity Trust & Savings Bank . . . . .	Chicago
W. A. Brooks . . . . .	Oklahoma City
Pittsburg Trust Company . . . . .	Pittsburgh
George G. Applegate . . . . .	Pittsburgh
Sidlo, Simons, Fels & Co. . . . .	Denver
Shingle, Brown & Co. . . . .	San Francisco
Little, Vardaman & Bitting, Inc. . . . .	St. Louis
Berdell Brothers . . . . .	New York
A. T. Bell & Co. . . . .	Toledo
Western Bond & Mortgage Co. . . . .	Portland, Ore.
Robertson & Ewing . . . . .	Portland, Ore.
Bond & Goodwin & Tucker, Inc. . . . .	San Francisco
Irving National Bank . . . . .	New York
Murphey, Favre & Co. . . . .	Spokane
Minneapolis National Bank . . . . .	Minneapolis

The following houses withdrew from the Association:

Bonbright & Co. . . . .	Detroit
W. M. Prindle & Co. . . . .	Duluth
Union Trust Company . . . . .	Indianapolis
Hannevig & Co. . . . .	New York
Iowa Investment Corporation . . . . .	Waterloo, Ia.
Continental Trust Company . . . . .	Macon, Ga.

Mabon & Co. . . . .	New York
Breitung & Co. . . . .	New York
Felix T. Hughes & Co. . . . .	New York
Coggeshall & Hicks . . . . .	New York
Bayne, Hine & Co. . . . .	New York
Fidelity Trust Company . . . . .	Portland, Me.
Kennett Cowan & Co. . . . .	New York
James L. Martin & Co. . . . .	Chicago
Frasier & Co. . . . .	Philadelphia
Morris Bros. . . . .	Portland, Ore.
Blodgett, Hart & Co., Inc., . . . . .	New York
Counselman & Co. . . . .	Chicago
Great Lakes Trust Company . . . . .	Chicago
Federal Utilities, Inc. . . . .	New York
First National Bank . . . . .	St. Louis
Campbell, Heath & Co. . . . .	New York
Royal Securities Corporation, Ltd. . . . .	Montreal
Arthur Lipper & Co. . . . .	New York
Bank of Charleston, N. B. A. . . . .	Charleston, S.C.

Respectfully submitted,

McPHERSON BROWNING, *Chairman.*

*The President:* Gentlemen, you have heard the report of the Membership Committee. Is there any question any member desires to ask regarding it, or is there any discussion about it? If not, and there is no objection, it will be ordered received and filed.

Gentlemen of the Convention, I don't know that it is necessary, but I want to introduce Mr. Pierpont V. Davis, of the National City Company of New York, whom we have been very fortunate this year to have as Chairman of our Railroad Securities Committee. Mr. Davis.

*Mr. Davis* (National City Company, New York): A year ago, at the last convention, it seemed as though the railroad problem was pretty nearly solved. The Transportation Act had been passed and the Interstate Commerce Commission had rendered its important decision advancing rates at the end of August. Your Committee believes, with the Committee of last year, that the Transportation Act is a measure of the greatest constructive value. Nevertheless there is still as much of a railroad problem today as there was last year, but we do not consider that that is due in any way to the failure of the Law. We do not believe, as do some people, that the Transportation Act is a failure. It is not a failure; but the time of its application has been unfortunate.

There are certain points covered in our report, which we desire especially to bring to your attention today. The most important

one is perhaps the matter of separation of power as between the Interstate Commerce Commission and the United States Labor Board.

¶3. The largest element in railroad operating costs is wages. Last year wages amounted to 60 per cent of operating revenues. Four years ago they were only 40 per cent. When the Railroad Labor Board fixes wages, indirectly it is determining rates. The Interstate Commerce Commission has a responsibility to the investor because it is required by the law to effect a schedule of rates which will yield a fair return on the value of railway property. The Labor Board has no financial responsibility. I wish to read you the exact language of the Committee's report on this point:

"As wages are the most important item in operating expenses they become the determining factor in the level of rates; the division of authority, therefore, between the Labor Board and the Interstate Commerce Commission constitutes the fundamental weakness in the Transportation Act. The best efforts of the Commission to stabilize credit and encourage economic management can be and have been nullified by the decisions of this totally unrelated Board. An amendment to the Act to coördinate the work of the Labor Board with that of the Commerce Commission is recommended."

I think that, although the joint author of the Esch-Cummins Act, Senator Cummins, is opposed to such amendment, the developments during the past month have proved conclusively its desirability.

There is also another point in our report to which we desire to direct the attention of this convention. After March 1st next, the statutory definition in the Transportation Act of what constitutes a fair return, expires. It is now  $5\frac{1}{2}\%$  plus a half per cent, the additional half per cent being discretionary with the Commerce Commission. Railroad financing has been conspicuously successful in the past year, due in part to the fact that the Commission authorized rates which were intended to yield the full 6 per cent on the recognized value of \$18,900,000,000. Recently certain members of Congress have introduced amendments to the Transportation Act, repealing what they call "the railroad guaranty," which, as you know, is not a guaranty. What they are attacking is this 6 per cent return, which is virtually inoperative; for instead of 6 per cent, the railroads have earned only  $2\frac{1}{2}\%$  per cent since the termination of the Federal guaranty period. A



repeal of the 6 per cent provision would give notice to the investor that money invested in railroad securities or railroad property is not entitled to even the legal rate of interest. This 6 per cent return, as defined by the law, expires by limitation March 1st, and the rate thereafter is to be fixed by the Commission. Your Committee recommends that the Interstate Commerce Commission should maintain 6 per cent as the fair rate. A less return than 6 per cent, in our judgment, would be certain to undermine credit.

Last spring the Labor Board handed down a decision abrogating the so-called National Agreements as of July 1st. However, that decision was conditional in that the old agreements were to continue in full force and effect until new agreements were mutually decided upon between the railroads and their employees. As it happened, new agreements could not be negotiated, so the national agreements, which are full of indefensible practices, are still in full force. We regret that the Board failed to abrogate the agreements unconditionally.

Rates are too high in many cases, but it has been unavoidable because of the very high operating expenses which are due, in turn, to high wages. The first step in deflating the labor costs on the railroads should be the definite abolition of the national agreements, and ultimately, a further cut in wages.

Mr. Oldham, in a few moments, will present the problem of consolidations very fully before you, and I will touch only briefly on the Committee's report in this regard. We point out that, because of the requirements of the law, no immediate consolidations are possible. As you know, a plan has first to be agreed upon, then consolidations must be in conformity with that plan, and the aggregate capitalization of merged properties must not exceed the physical valuation when determined. The Commission has not agreed upon a plan. It has not determined valuations, except in a relatively few instances, so that we are probably some time removed from the practical application of that phase of the Transportation Act.

Granted that a material reduction in the number of railway systems is in the public interest, we regard with decided apprehension an amendment to the Transportation Act which would make consolidations compulsory, even if legally possible. The effect of such consolidations would be far more likely to destroy the credit of

the strong road than to build up the credit of the weak road. On the other hand, consolidations which flow from the motive of self-interest will not jeopardize credit and will, in our judgment, produce the more vigorous systems.

A further point in the report which I wish to stress, is the agitation on the part of certain people to weaken the Transportation Act by restoring authority to state commissions. Your Committee is thoroughly convinced of the wisdom of centralizing the powers of regulation in the Interstate Commerce Commission and is vigorously opposed to any modifications of the law in this respect.

The three outstanding recommendations in the report are:

First. We believe we should have a Labor Board, but only as a subordinate body reporting to the Commerce Commission. There are those who have recommended the abolition of the Labor Board, but it has an important function if brought into the proper relationship with the Commission.

Second. We urge upon the Interstate Commerce Commission the continuance after March 1, 1922, of 6 per cent as the fair return necessary to support credit.

Third. We deprecate any weakening of the full authority in the matter of regulation conferred upon the Interstate Commerce Commission by the Transportation Act.

These are the high spots in the report. I therefore ask, if the report meets with your approval, that it shall not merely be received and placed on file, but that the Convention endorse and adopt the report. We have not drafted resolutions in connection with the suggested amendment to the Transportation Act with reference to coördinating the work of the Commission and the Labor Board, because we wanted your endorsement with reference to the other points as well.

## REPORT OF THE COMMITTEE ON RAILROAD SECURITIES

At the time of the previous convention of the Investment Bankers Association of America the railroad problem seemed to be well toward solution. The Transportation Act, which was recognized by your Special Committee on Railroad Securities as "one of the most reconstructive measures that Congress has enacted," released the carriers from the shackles of the Sherman Law, substituted unified methods of regulation and, most important to the investor, established a statutory rule of rate-making that was intended to assure earnings adequate to sustain credit. This rule of rate-making stipulates that until March 1, 1922, a fair return on the aggregate value of railroad property shall be  $5\frac{1}{2}\%$ , and that the Interstate Commerce Commission may, in its discretion, add thereto a sum not exceeding  $\frac{1}{2}\%$  of 1% to make provision for expenses chargeable to capital account.

The first rate case decision of the Commission under the amended law gave encouragement to investors not only because rates were advanced to yield presumptively the full 6% return, but also because the temporary valuation utilized for the purpose of the instant case, placed a value on the carriers' properties that fully justified the par amounts of the railway securities owned by the public.

The railroad problem is nevertheless still with us, but not because the Transportation Act is a failure. The first year's test, however, demonstrates the need of amendment, to which this report will refer in due course.

The railways' troubles in the past twelve months were brought to a head by a shrinkage of earnings caused by a decline in traffic so rapid that expenses could not be reduced proportionately. The result has been that instead of earning a 6% return on the value of their property, the carriers of the country earned only  $2\frac{1}{2}\%$  since the termination of the guaranty period. And this scanty return was obtained only by a curtailment of maintenance so drastic that the physical condition of roadbed and equipment, generally speaking, has deteriorated.

In 1914 and 1915 when the percentage of return on the investment dropped to about 4.20%, approximately 35,000 miles of railway were forced into receivership. That no such calamity occurred in the past twelve months is due, in considerable measure, to the fact that the Interstate Commerce Commission has made wise and effective use of the \$300,000,000 revolving fund which the Transportation Act created.

Railroad financing during the year has been confined to the strongest companies and has added to their funded debt. Your Committee nevertheless believes that the Transportation Act has laid the foundations for a rehabilitation of railroad credit, and that, with the advent of easier money and consequent higher prices for standard dividend-paying stocks, equity financing may once more be possible.

Recent railway earnings have shown considerable improvement. Those for July (the latest complete figures obtainable at the time of writing this report) are equivalent to a  $4\frac{1}{2}\%$  return on the aggregate valuation; and the August returns are estimated to be 5%. But if the carriers are to hold their place in the investment markets the betterment in earnings must run considerably farther, and there must be definite deflation in the costs of operation.

These costs are comprised chiefly of fuel, which absorbed 11 cents out of each dollar of gross in 1920, materials and supplies, which took a further 17 cents, and labor, which received 60 cents, a total of 88 cents. Contrast these figures with the ratios in 1916, when fuel took 7 cents, materials and supplies 12½ cents, and labor 41 cents, a total of 60½ cents.

The bill for fuel and for materials and supplies increased by over one billion dollars between 1916 and 1920, a sum in excess of 5½% on the official recognized fair value of the properties. Considerable economies along these lines are being accomplished by all the railroads, but the wage bill is still excessively high. It has increased since the passage of the Adamson Act by over two and one quarter billion dollars, from which the decision of the Labor Board, effective July 1, 1921, cut only \$400,000,000. While your Committee desires to see the men employed in railway service fairly compensated, we believe that present labor costs are beyond the economic ability of the industry to meet. It is a demonstrated fact that the railway companies cannot pay 60 cents out of each dollar of gross for wages and at the same time provide adequate maintenance of physical structures and a fair return on the invested capital.

The next step towards a return to normal operating conditions should be the abolition of the improvident National Agreements, which compel the employment of unnecessary men and are responsible for extravagance in pay. These agreements were exhaustively discussed before the Labor Board and were to be abrogated as of July 1, 1921, provided the railroads and their employes could compromise on substitutes, which has proved impracticable. We regret that the Board failed to abrogate the agreements unconditionally.

As wages are the most important item in operating expenses they become the determining factor in the level of rates; the division of authority, therefore, between the Labor Board and the Interstate Commerce Commission constitutes the fundamental weakness in the Transportation Act. The best efforts of the Commission to stabilize credit and encourage economic management can be, and have been, nullified by the decisions of this totally unrelated Board. An amendment to the Act to coordinate the work of the Labor Board with that of the Commerce Commission is recommended.

We believe that the whole railway industry will be on a much sounder basis when it is possible to reduce rates, and it is probable that reductions, when made, will contribute in some degree to improvement of general business; but substantial and effective decreases in railway operating costs are the conditions precedent to any rate reductions. Railway solvency might readily be imperilled by precipitate action against the existing rate structure.

As we have pointed out, the fundamental importance of the Transportation Act to the investor lies in its mandate to the Interstate Commerce Commission to adjust rate schedules that will yield a fair return on the aggregate value of railway property. After March 1, 1922, the statutory definition of what constitutes a fair return expires, and the determination of the rate is left to the discretion of the Commission. Amendments to the Transportation Act have been introduced in the Senate to reduce the statutory rate of return below 6%. Your committee wishes to go on record as opposing a return of less than 6%, believing it would be unfair and certain to undermine railway credit.

The Transportation Act has not yet solved the problem of restoring the credit of the weaker roads. Legislation is no cure-all for railway ills. Even if the carriers as a whole had been able to earn 6% for the past year, it is improbable that confidence would have been restored in the securities of the companies which prior to Federal control were considered weak. But this is not the fault of the law. Credit is notoriously of slow growth; if, however, earnings should rise to the 6% level and continue at that rate, it is reasonable to hope that many of the so-called weak roads may become stronger. If they do not, the fault probably will be found in a badly balanced or excessive capitalization.

Railway consolidations, which have been proposed as the ultimate solution of the problem of the weak roads, cannot afford relief for some time to come, in any event. The Interstate Commerce Commission's plan, recently published, is purely tentative and will not be made final until protracted hearings have been held. If the plan is adopted, no consolidations are possible until the final physical valuations have been completed, in view of the stipulation of the law that the aggregate capitalization of merged properties shall not exceed their physical values. So we are a good many months, perhaps years, from the beginning of the operation of this section of the Act. Granted that a material reduction in the number of railway systems is in the public interest, we regard with decided apprehension an amendment to the Transportation Act which would make consolidations compulsory even if legally possible. The effect of such forced consolidations would be far more likely to destroy the credit of the strong road than build up the credit of the weak. On the other hand, consolidations which flow from the motive of self-interest will not jeopardize credit and will, in our judgment, produce the more vigorous systems.

For the past year the attention of your present Committee has been centered on the more immediate problems of earning power, the funding of the railways' debt to the Government, and the like. We trust that these problems will not be as pressing next year, and in view of the importance of the creation of a suitable final plan for consolidations, we hope that the successor Railroad Committee will give the subject special consideration.

A new law is subject to attack until its benefits are fully understood. We have referred in the course of this report to proposed amendments to the Transportation Act with which we disagree. One of the outstanding strong features of the Act is the centralization of power of regulation in the Interstate Commerce Commission. The National Association of Railway and Utilities Commissioners (of the various States) resent the shearing of their authority and announce their intention to work for an amendment. The impossibility of the railroads obeying forty-nine masters has been demonstrated conclusively during the past ten years to everyone except, apparently, the state commissioners. Your Committee wishes to go on record as being vigorously opposed to any modification of the law in this respect.

The question of Panama Canal tolls is now before Congress. In the judgment of your Committee, the exemption of American shipping as proposed, is an unwarranted blow at the transcontinental railroads. Those carriers are already suffering from the competition of coastwise ships operated at the expense of the taxpayers.

Railroads are also suffering from the competition of motor trucks which, to some extent, are able to divert traffic only because they are not compelled to absorb their fair share of the maintenance of the highways which they use and only too often destroy, and which the railroads as taxpayers aid in maintaining. The correction of this injustice is quite as much in the interest of the general public as it is in the railways' interest.

The Interstate Commerce Commission now has full authority over the issuance and sale of securities. During the past year sometimes six weeks and longer have elapsed between the time the railroad company made its application to sell bonds and the date the authority was officially given. Such delays are dangerous. If the securities are sold by the bankers subject to the approval of the Commission, the investor is annoyed at not receiving delivery of his securities, and if the quoted price goes down he may attempt to cancel his purchase. If the sale by the bankers is deferred until the Commission has granted authority, the market may have disappeared. In a year of rising prices there might be no injury by delay but in a falling market the railroads, the bankers and their customers may be seriously embarrassed. Doubtless, a part of the delay has been due to the immense amount of work the Interstate Commerce Commission has been doing. The question deserves the prompt attention of the Commission to devise a means of relief.

A summary of the conclusions of your Committee follows:

The persistence of the railway problem is due to the acute business depression and the ensuing maladjustment of prices and labor, and is no reflection on the value and importance of the Transportation Act, which we regard as a most constructive legislative achievement.

The labor costs on the railways are beyond the ability of the industry to meet, and we believe the Labor Board erred in not abrogating unconditionally the so-called National Agreements.

As wages are the important factor in the determination of the rate structure, the functions of the Labor Board should be coördinated with those of the Interstate Commerce Commission, and we suggest an amendment to the Transportation Act looking to this end.

Railway rates are still on a war basis and should be reduced just as soon as operating costs have been reduced. But a too drastic premature reduction, in view of the weakened condition of railway treasuries, would be likely to invite disaster.

When railway earnings fell close to 4% in 1914 and 1915, receiverships multiplied. When earnings advanced to the neighborhood of 6% in 1916 and 1917, reorganizations were carried out and credit was expanding. The lesson of railway history is clear that the Interstate Commerce Commission should continue to adjust rates with the view of permitting a net return of 6%, when the determination of such return rests in their uncontrolled discretion, that is, after March 1, 1922.

Consolidations are desirable so long as they result from the voluntary action of the interested parties. Compulsory consolidations might in many cases injure instead of restore the credit of the railroads concerned.

The overwhelming part of the railways' activities is now interstate—a fact recognized by the Transportation Act. Any restoration of regulating authority to the state commissions would be a retrograde step.

Railroads, having already suffered from the competition of motor trucks using highways provided at the expense of the public, should not in addition be subjected to competition through the proposed exemption of coastwise shipping from payment of tolls on the Panama Canal.

Respectfully submitted,

PIERPONT V. DAVIS, *Chairman.*

*Mr. Clarke* (Federal Securities Corporation, Chicago): Mr. President.

*The President:* Mr. Clark.

*Mr. Clarke:* I move the adoption of the report and the endorsement of the recommendations of the committee.

*The President:* Gentlemen, you heard the motion, is there a second. (The motion was seconded.)

The motion is made and seconded that the report be adopted and that its recommendations receive the endorsement of the convention. Now, Gentlemen, this is your convention. It is very embarrassing for the Chair, and it is embarrassing for the chairmen of the committees who put in a great deal of effort throughout the year on their work, if the members themselves do not take enough interest to discuss the things that are brought to them, and presented to them, and I hope there will be a frank and full discussion on the part of the members here on the report. Gentlemen, the matter is before you. Do any of the members desire to ask any questions in reference to the matter brought out in the report. It seems to me that it is one of the most important matters confronting the business of our members at the present time, and particularly in view of what we have gone through within the past week.

*Mr. Newman* (M. W. Newman & Sons, New Orleans): What function is it that the United States Labor Board has performed that the Interstate Commerce Commission cannot perform? What is the purpose of competing with the Labor Board?

*Mr. Davis:* If the Interstate Commerce Commission is to be given authority over the wages paid on the railroads, it must have some kind of a division created to study that problem. My personal views favor transferring the functions of the Labor Board to a "Bureau of Labor," to report its findings to the Commission, but the Commission must have final authority. The abolition of the Labor Board, without the creation within the Interstate Commerce Commission of a department to study and make

recommendations in wage cases, would leave a serious void. The members of the Commission are too heavily burdened with other work to handle these cases, in the first instance. Recent events have shown the unwisdom of independent boards, one located in Washington and the other in Chicago. The Public Section of the Labor Board recommended that the railroads should reduce rates in order to pass along to the public the benefit of the 12 per cent wage reduction of last July. The Labor Board evidently was unaware of the fact that about half of that reduction had already been voluntarily passed to the public by the railroads. In the recent western grain rates decision, the Commission said that operating costs are too high and ought to come down, but it has no authority over the most important element of operating costs.

*Mr. Block* (Nelson, Cook & Co., Baltimore): Why wouldn't it be possible to amalgamate these two boards? You say the Interstate Commerce Commission is already overburdened with work. That may be true, but in the decision you just referred to, the Interstate Commerce Commission told the railroads they had the redress of seeking lower wages from the Labor Board, and the Labor Board announced they would not consider any other reduction until some time in 1922. Now, unless we secure coördination in these two boards we will be at opposite ends of the pole all the time. I, for one, would object to having this Association go on record as other than placing the authority of the supervision of rates and wages under the control of one board. I think it would be a very serious mistake to recognize two supervising factors of this type. The circumstances are very serious. Perhaps the members sitting here have not realized the seriousness of it. If they have they are passing this subject up in a very careless way. It seems to me that we have struck the very crux of the whole situation. While it is true that the Interstate Commerce Commission has a great deal of work, yet they violated every precedent a few days ago when they made this decision on middle west grain rates. Heretofore, they have used anywhere from one month to a year and a half and now they arrive at a decision in very short order, showing that they can function if they will only take the trouble to do it. I think we ought to have one supervising board, bereft of all political objections or powers.



*The President:* Now, gentlemen, this report, as Mr. Block has just said, raises some very important questions. If they are to go out of here with the endorsement of this Association, the matter should be discussed further.

*Mr. Block:* Would it be in order to have this report received by the Association? We have never, it seems to me, in conventions of this Association, adopted a report which contains important recommendations. This report contains very important recommendations, and I hardly think it should be adopted in this manner without full discussion. This puts this convention on record as favoring a continuation of the Labor Board. Now, we are all open to conviction. It is my own conviction that the Labor Board should be abolished. I have no qualifications of that conviction. Every gentleman here may have a different thought in the matter, but I venture to suggest that ninety-nine out of a hundred have not any convictions at all, and Gentlemen, by adopting this report we send broadcast over the land a telegraphic communication that may come back and slap us in the face sometime.

*The President:* Then, Mr. Block, I understand you are in agreement with the report.

*Mr. Block:* Yes, sir; I am, but I do not think that it should be adopted as reflecting the unchanging consensus of the membership. I am not in favor of a continuation of the Railroad Labor Board. I believe that all the work should be consolidated and handled by one body. That is my own belief.

*The President:* For the information of the members present, the Board of Governors went over this matter yesterday afternoon and last night, and approved the recommendations of the Committee, which agreed exactly with Mr. Block's idea. Is there anyone else?

*Mr. Martin (Pyncheon Co., Chicago):* Could the report be read again? We could not hear it very well and I should like to hear it read again.

*The President:* Mr. Chairman, will you please read again the portion of the report under discussion.

*Mr. Davis:* "As wages are the most important item in operating expenses they become the determining factor in the level of rates; the division of authority, therefore, between the Labor

Board and the Interstate Commerce Commission constitutes the fundamental weakness in the Transportation Act. The best efforts of the Commission to stabilize credit and encourage economic management can be, and have been, nullified by the decisions of this totally unrelated Board. An amendment to the Act to coördinate the work of the Labor Board with that of the Commerce Commission is recommended."

Now, your Committee did not think it advisable to go on record as to just how that coördination should be achieved, but we do wish to have the Convention endorse the idea of getting the two bodies together.

*Mr. Block:* Doesn't the report go further and say something about the continuation of the two Boards?

*Mr. Davis:* No, Sir.

*Mr. Block:* Then I was mistaken in it; I understood it did.

*The President:* Gentlemen, is there any further discussion? If not, all those in favor of adopting the report will say "Aye," those opposed "No." The report is adopted.

Gentlemen, Mr. F. J. Lisman, who is a member of the Railroad Securities Committee this year, is not present, but one of his partners is and has a statement which Mr. Lisman has prepared, giving his individual views—not those of the Committee—in regard to the handling of the labor question on the railroads. Mr. Mitchell May, of F. J. Lisman & Company.

## RAILROAD, FINANCIAL AND LABOR PROBLEMS\*

F. J. LIEMAN

F. J. Lisman & Co., New York

The financial railroad problem in the United States today is in fact indetical with the railroad labor problem because if the labor problem can be solved satisfactorily, all other questions not only can be, but are, largely solved by the Esch-Cummins Transportation Act of 1920, provided this Act is given an opportunity to be properly administered without interference by demagogues in and out of Congress.

At present the railroads of the United States are annually earning about five and one-half billion gross and it takes just about 20% of this amount to produce 6% on the value of the property devoted to railroad purposes. Thus far, pending the completion of the final physical valuation of the railroads this value has been appraised by the Interstate Commerce Commission at about nineteen billions. Substantially all of this 20% necessary in order to sustain the credit of the railroads and to assure further investment for the development of same, was absorbed during the years of Government control by the increases paid to labor.

Previous to 1917 the amount of wages paid out by the railroad companies directly to labor absorbed about 40% of the gross earnings; in 1920 this amount had increased to about 60%. In 1921 with the large amount of deferred maintenance labor will absorb about 53% of the gross. This decrease of 7% compared with the previous year in the amount paid to labor is just equal to the 3½% which the railroads of the United States during the year 1921 will earn on the above mentioned valuation.

Before the war and before Congress interfered with the relations of the railroads to their employes by passing the notorious Adamson Act under a strike threat by the labor leaders, the railroads got on very well with their employes. It is quite true the wages of many clerks and roadway men were unduly low but similar comparisons apply, however, to many other classes of help in many other walks of life.

The railroads today have two masters, the Interstate Commerce Commission which regulates their income and prescribes

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\*Read by Mitchell May, F. J. Lisman & Co., New York.

rules of conduct, and the Labor Board which regulates the larger portion of their expenses. One might say in effect the Interstate Commerce Commission itself is in turn regulated by two different factors. One factor is the law as it stands and the other factor is the pressure of organized shippers, working through every possible political channel in a short-sighted effort to force down rates irrespective of the permanent health of our transportation system. Dual control has been tried in many ways since the dawn of history; it never has worked and it never can work, either on a large scale or on the simplest scale, as in the household, where both the master and the mistress are giving different instructions to the domestic help.

It is obvious and now universally acknowledged that the railroads are a public utility and that their management should be properly controlled in the interest of the public; but the same theory must necessarily apply to their employees, because employers and employees, or capital and labor are equally necessary for the purpose of giving proper service to the public. This does not in any way mean that there should be a public body which should definitely fix their relations to each other. These relations necessarily differ in different sections of the country and with the class of work. They are necessarily dependent on the kind of work performed and on the cost of living. It is obviously absurd that a colored fireman, working on a branch line of a railroad in the State of Mississippi should get the same wages as a fireman working on a trunk line running out of New York or some other large city. The labor unions forced on the Federal Railroad Administration national agreements containing just such, and even more objectionable provisions. They are now trying to perpetuate the absurd and extravagant standard then established.

The effect of this is that the railroad mileage of the United States has been decreasing during the last few years and will continue to decrease. That is, branch lines are being taken up and no new mileage is being constructed in spite of the fact that there are unquestionably still very large sections of the country capable of further development provided transportation were created.

The labor union has come to stay and on the whole it has been beneficial; but the abuse of unionism is today much more conspicuous than the benefits it has brought. It is the abuse of power

by the union leaders which is a menace to our country, not only as far as the railroad interests are concerned, but in many other ways. For example, a very much larger amount of building would be going on and rents would be much lower today if it were not for the abuse of power by the leaders of the building trade unions. We must face this question. Public opinion can and no doubt in time will force Congress to in some way regulate the unions not only as far as the national public utility corporations are concerned, but possibly in other directions as well.

Members of the Interstate Commerce Commissions have expressed themselves repeatedly to the effect that they do not want to have the powers of the Labor Board transferred to them for the following reasons:

1. They are grossly overworked already.
2. The performance of their duties connected with such function would bring about further political pressure on them, which is sufficiently burdensome already.
3. Whenever the Commission should reduce wages it would probably be expected to reduce rates, and vice versa, if wages were advanced, the railroads would insist on rate advances.

As a matter of fact it is not necessary for the Interstate Commerce Commission to adjust wages. The companies and their employes should be allowed to work this out for themselves, but a labor bureau should be created under the supervision of the Commission, the function of which would be comparatively simple, that is to say, the function of this labor bureau as part of the Interstate Commerce Commission should be as follows:

1. To lay down rules for the election of the labor union officials which shall be by secret ballot, and to supervise such elections.
2. If there appears to be any dissatisfaction or disagreement between a railroad corporation and its employes, the points of difference shall be submitted to the Labor Bureau, which shall clearly define them. In case 5 per cent of the employes or members of any union shall sign a petition favoring a strike, then the Labor Bureau shall order a secret strike vote which shall be supervised by it. The names on such a petition should be kept secret.
3. To prescribe a form of accounting, in accordance with which all books of such labor unions are to be kept.
4. The accounts of the labor unions shall be audited by a certified accountant employed by the bureau; said reports to be printed and open to inspection by the public.

Everyone knows that strikes are generally declared by a small minority of more or less irresponsible and restless young men,

who want excitement, while the majority of the loyal, steady employes are passive in these matters and merely go on strike because they fear that they or their families will be molested. The union leaders will vociferously object to such legislation, but I am convinced that if this proposed legislation were to be voted on, not only most working people but also a majority of union labor would favor it by a large majority.

The result of such an act would be that there could be no secret funds which might be used for the hiring of ruffians for the purpose of destroying or damaging property or which could be used in other illegal ways. The profits or fancy salaries paid to labor union leaders would be made public, which would in turn result in a closer supervision of union activity by the men who are paying the dues. When the issues are clearly defined the demagogic, loud mouthed, professional agitator could no longer succeed and a very much better class of men would come forward for leadership. It is perfectly absurd that men should be asked to vote on the question whether there should be a strike or not without knowing the issue on which they are voting. It is clearly obvious that most of the strike votes today which are taken on glittering generalities are meaningless.

There is a great tendency nowadays to establish all kinds of Congressional and arbitration commissions. Superficially the creation of such bodies seem very just but in effect it means that disputes are constantly being stimulated for the purpose of having them arbitrated. The professional agitators who dominate the unions constantly raise new issues so that there may be something to arbitrate. As a consequence these arbitrating bodies are and always will be overworked. This has been the experience of such boards, not only in the United States but also in Australia and New Zealand, where an attempt has been made to settle everything through them. They have proved to be a failure there and will be such everywhere.

The present Labor Board is a monstrosity. It is wrong in theory and it is wrong in practice, and naturally the results achieved by it are wrong. There are nine members, three of which are supposed to represent the railroads, three the labor unions and three the public. The men representing the railroads and the unions are, of course, always looking out for their particular

interests and the men who are supposed to represent the public really have not been chosen by the public; they have been selected in the usual manner like other public officials, to some extent, selected under political pressure and from various sections of the country.

They certainly have not been selected on account of their previous service to the public nor on account of their broad knowledge of public opinion or desires. Like most public commissions, they have started to set up a complicated bureau or what is generally known as a circumlocution office with plenty of red tape. They have divided the employes of the railroads into some six hundred odd different classes and now the railroads are being compelled to keep a detailed account of the services performed by each different class of men. For instance, if a baggage man on a train also handles express, he goes into a different class from the man who handles baggage and mail, and if he handles baggage, mail and express, he belongs to a third class. A crossing watchman who tends to a little gasoline pump belongs to a different class from the man who does not look after the pump, etc., etc.

As a further sequence of the complicated structure this body has created within the short time since it has begun to function, it finds itself overworked, and takes months to arrive at a decision. In the meanwhile, the railroads and the public are suffering.

Wherever government bureaus are set up, there is inefficiency and endless delay. To quote President Harding: "Let us have more business in Government and less Government in business." And this applies to railroads as much as it does to shipping, etc.

Congress may not have the courage to pass the necessary legislation through fear of the labor vote, but the fact is that the labor vote is only a small fraction of all the voters who are affected by the present unsatisfactory conditions. If something is not done along the lines above suggested, it will mean that the railroads of the United States will have to be taken over by the Government. This is what some of the radical labor leaders are trying to bring about in the hope that they will dominate the Government and that in the end the railroads will be operated by the labor unions. This scheme is otherwise known as the "Plumb Plan" which was introduced in the last Congress.

If the members of this convention of the Investment Bankers Association of America will go home and spread the gospel of intelligent regulation of the labor unions rather than the regulation of wages, then great strides forward will be made in every walk of life. Tell your friends who want the labor unions regulated, to go before Congress and make a noise like a walking delegate; success will crown their efforts.

*The President:* Gentlemen, at the January meeting of the Board of Governors, Mr. John E. Oldham, who was a former chairman of the Railroad Securities Committee and a former vice-president of this Association, stated that he had in the course of preparation a revamping and review of his paper entitled "A Comprehensive Plan of Railroad Consolidation" which first appeared in the *Nation's Business* and was afterwards published as a pamphlet with tables and maps by the United States Chamber of Commerce. The Board knowing that Mr. Oldham who has contributed so much to this part of the work of the Association had made his study, or a large part of his study in his work in connection with the Railroad Securities Committee, asked him if he would allow the Association to publish the report as a contribution to the general knowledge and discussion of the matter. Mr. Oldham was good enough to do this and the Board has authorized the publication of the report which I am glad to say has been prepared in time to present at this meeting. I am going to ask Mr. Oldham if he won't say something about the report which I am sure is not only of great interest to you but, being presented here for the first time, is a very timely presentation of the subject to you and to the public. Mr. Oldham. [Applause.]

*Mr. Oldham, (Merrill, Oldham & Co., Boston):* Mr. President and Gentlemen: I appreciate the fact that it is rather difficult in a short time to go over a subject as large as railroad consolidations. I welcome, however, the opportunity of saying a word or two here in regard to this matter. The full report and conclusions are contained in this pamphlet. Those who have followed the work of the various railroad securities committees of the Association will find in the report much that is familiar. It is a summing up and bringing into one place and to show its practical application the conclusions which your committees have come to from time to time.



## A PLAN FOR RAILROAD CONSOLIDATIONS

JOHN E. OLDHAM  
Merrill, Oldham & Co., Boston

I take it that no one man is qualified to prepare a plan of railroad consolidations which will cover all phases of the question. The specific questions which must be given consideration deal with operation, traffic relations and credit. This report deals more specifically with credit. What I have attempted to do in this report is to give a view of the railroad problem as a whole and to present a picture as I see it of the problem to be solved. In view of the length of the report I will comment only upon its principal features.

Consideration will be given first to the condition of railroad credit during the ten-year period preceding Federal control. Everybody is familiar in a general way with the unsatisfactory condition of railroad credit during that period; everybody knows the difficulties which all railroads were meeting in their efforts to obtain an income sufficient to support their credit.

It will be recalled that President Wilson in 1915 appointed a special committee, known as the Newlands Committee, to investigate the whole subject of railroad credit in order that legislation, if necessary, might be enacted which would enable the railroads to get readily and economically capital sufficient to meet the transportation needs of the country. This Committee was appointed before the war and in the course of its investigation had held hearings in various parts of the country for at least a year. Testimony had been taken from railroad men, shippers, economists and others. Because of the situation created by war conditions the work of this Committee was never completed, but much testimony similar to that which it secured was presented when the Federal Control Act was under consideration before the Senate and House Committees.

At the close of the war former Director-General of the railroads, Mr. McAdoo, suggested that the Government retain control of the railroads for a period of five years with a view to better determining the advantages of Government ownership. Hearings, covering a period of several months, were held and much of the same testimony in regard to the troubles of the railroads (espe-

cially the difficulty in raising capital) before Federal control was again rehearsed at these hearings. Finally, when the Transportation Act was under consideration, the whole matter was gone over again. The Transportation Act is, therefore, the result of a vast amount of testimony before practically the same committee that drew the Act, covering a period of five or six years, and the testimony presented covered all phases of the question and everybody who had any interest in the railroad situation had an opportunity to be heard.

When the railroads were taken over by the Government it was generally conceded that credit was very much depreciated and, partly because of this and partly for other reasons, the railroads were unable to give the service required of them. It was natural that many people should believe that private management had failed, and that others should believe that the difficulty was due more largely to the character of governmental regulation; however, opinion was quite unanimous that the railroads should not be returned to their owners without proper remedial legislation which ought to be designed primarily to enable the railroads to obtain capital.

The railroads were returned to their owners March 1, 1920 and are now operating under the Transportation Act.

There is so much misunderstanding in regard to the causes which had operated to depreciate the credit of the railroads that I will briefly review the situation as it appears to me, depending for my information upon the reports issued from time to time by the Interstate Commerce Commission. In the last analysis the matter of depreciated railroad credit resolves itself into inability of the railroads generally to obtain, under the rates in force, sufficient income. Further consolidations have been proposed by many as a solution of the problem and this pamphlet is devoted especially to a consideration of the relation of consolidations to credit. Following the discussion of the nature of and requisites for sound credit, a plan of consolidations is proposed and statistical and other data is presented showing the practicability of bringing about such a plan.

It has been quite customary in considering the railroad problem to classify the railroads of the country as the "strong" and "weak" roads; the strong roads being the roads which have heretofore paid

dividends consistently and regularly and the weak roads the roads which have not paid dividends. An investigation of the financial policies of the strong roads shows that prior to 1910 a considerable part of their financial requirements were met by issues of capital stock and that after 1910 very little stock was issued, but that their capital requirements were met largely by the issue and sale of obligations—more especially bonds or notes—thus increasing fixed charges.

A comparison of the reports by years, nevertheless, shows that these roads were paying substantially the same rate of dividends in the period 1910 to 1915 that they paid prior to 1910. While it might appear from this that credit had not been depreciated and that there was just as much reason for investors continuing to buy stock during the latter period as during the former, the facts of the case are that very little stock was issued.

A more critical examination of the financial statements shows that while the same rates of dividends were paid the margin over dividends was being constantly reduced and it is fair to conclude that the public was discounting the future and held the belief that there was a strong probability that the railroads would be unable to maintain dividends at the same rate because of the constantly increasing cost of operation and inability to obtain higher rates in order to offset the increased cost. So far as the strong roads are concerned, it is fair to conclude that their depreciated credit was due primarily and almost solely to inadequate rates.

The depreciated credit of the weak roads was also in part due to the same cause, nevertheless, there were other causes which had an important bearing upon the financial position of these roads.

For the purpose of comparison I have made up two groups of roads; group A includes ten of the largest railroads in the West and South which were regular dividend payers, and group B includes ten of the roads operating in the same territory which were non-dividend payers. This comparison will be found in detail on page 11.\* Table I shows that these two classes of roads handled about the same kind of traffic; that is, in each case there was about the same proportion of passenger, freight, and miscellaneous business. Table II shows that the kind of freight handled

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\*A Plan for Railroad Consolidations, by John E. Oldham. Distributed by the Association.

was similar, as the tonnage in both cases was of much the same character. Table III shows the uniformity of rates for both passenger and freight service.

Table IV is especially significant as it shows that there was very little difference in operating cost exclusive of maintenance; that is to say, the total expense of operation, including taxes but excluding maintenance, was 41.1 per cent for the roads in group A, as against 43.6 per cent for the roads in group B. The next column of the same table shows that the amount expended for maintenance of property combined with the amount reserved for depreciation was 35.7 per cent and 33.8 per cent respectively. The last column shows that the proportionate part of \$1.00 of gross income which was distributed to security holders was practically the same in each case—23.2 per cent for the strong roads as against 22.6 per cent for the weak roads.

The next table shows that while each group of roads distributed to security holders about the same proportionate part of the gross income, nevertheless, the roads in the so-called strong group distributed 11.5 per cent in the form of fixed charges and 11.7 in the form of dividends, making a total distribution of 23.2 per cent, while the roads in the weak group distributed 22.2 per cent in the form of fixed charges and 4-10 of 1 per cent as dividends, a total of 22.6 per cent.

Table VI indicates the amount of capitalization for each dollar of gross operating income, and from this it will be seen that the capitalization of the strong roads was \$4.07 against \$7.03 for the weak roads.

The last table shows that the earnings on the capitalization of the group A and group B roads would not have been materially different if these two groups of roads had been capitalized in a similar manner. On the basis of existing capitalization the strong roads show earnings of 7.54 per cent against 4.01 per cent for the weak roads. If both classes of roads had been capitalized on the basis of the strong roads there would have been a difference only as between 7.54 per cent and 6.93 per cent. If all had been capitalized as were the weak roads there would have been a difference only as between 4.97 per cent and 4.01 per cent.

A glance over these tables will show that the difference between these two groups of roads is very largely a matter of capi-

talization, and that if capitalization were placed on the same basis all of them should be able to prosper similarly under uniform rates.

The small roads not typified by these two groups no doubt are less favorably situated and would have required some treatment beyond an increase in rates and financial reorganization to have maintained themselves in a strong credit position.

I think in a general way it may be said that the most important feature of the remedial legislation is the method of rate making provided by the Transportation Act. I will not attempt to discuss this provision in detail but merely will suggest that it recognizes the cost of capital as a part of the cost of service and endeavors to provide a system of rate making which will furnish a just and fair return on invested capital.

In the discussion of this matter emphasis has been laid upon the fact that the rate-making provisions of the Transportation Act are much in line with the various service-at-cost plans which have been successfully applied in the case of public utilities. This method of rate making is more difficult in its application to railroads because it is an attempt to apply the principle to competing companies instead of to a monopoly as in the case of public utilities.

The pamphlet, pages 19 to 23, contains a rather complete discussion of the method of rate making contained in the Transportation Act and finally comes to the conclusion that the service-at-cost principle cannot be applied successfully to railroads of the country except under one of three conditions: (a) that transportation is made a monopoly; (b) some method is provided for pooling and redistributing income so that each railroad will receive its fair return on the basis of its cost of operation and value; or (c) that railroads competing with each other shall be so similarly situated that they can earn substantially the same rate of return under uniform rates.

The conclusion is finally reached that the country has declared against a monopoly; that a redistribution of earnings as proposed under the heading (b) is economically unsound and practically impossible; and, therefore, that unless it is possible to combine the railroads so as to create systems which are substantially uniform in situation and circumstances the most important provision

of the Transportation Act, namely, the rate-making provisions, will be disappointing in the results obtained. For the purpose of credit, therefore, it is clear that further consolidations among existing systems are necessary.

Not only are consolidations essential in order that credit may be restored but they are necessary in order to carry out other important provisions of the Act, especially in the matter of economy and efficiency. It was in order that there might be greater efficiency that Congress provided for private ownership and operation in preference to Government ownership; and for the same reason it made provision for competition instead of creating a monopoly.

There are different points of view as to the meaning of competition, but it seems to be clear that inasmuch as the object of competition is to promote efficiency and economy, the kind of competition intended is only such as may be expected to serve these purposes. Competition, therefore, which would require duplication of facilities or which would in any way increase the cost of service is clearly inconsistent with the purposes of the Act. The Act calls for a limited number of systems so competing as to secure economical service through efficiency of operation.

Under the policy of rate making established by the Transportation Act the total railroad income in a given rate-making territory is to be limited to an amount which will equal the fair return on the aggregate value of the property of all the roads in the territory. As railroads have no control over rates to be charged for service and as they are forbidden by law from discriminating in favor of either individuals or communities, competition resolves itself into a contest among the roads in each district for such part of the total income as each is able to obtain as a result of the facilities which it can furnish and the quality of service which it can offer.

This is genuine competition, provided the companies are similarly situated so as to create equality of opportunity, for under such circumstances efficiency of operation alone would determine the income which each would receive. Unless the companies are similarly situated other factors, especially favorableness of locations, will in part determine the receipt of income, and in so far as

such factors are unduly rewarded, efficiency of operation will fail to receive its just reward.

Congress has made competition an essential factor in the railroad policy of the country on the theory that competition provides the means of assuring adequate service with the greatest efficiency and economy. It is obvious that these purposes cannot be served unless the companies engaged in competition have equal operating advantages and similar financial strength and credit standing; and that to establish these conditions it will be necessary to make further consolidations among existing systems.

The Transportation Act in general provides that the consolidations to take place shall meet certain specific conditions. It requires that the resulting systems shall be limited in number, that they shall be competitive, and that existing competition among such systems shall be preserved as fully as possible.

When it says "competition shall be preserved as fully as possible," I understand it means as fully as is consistent with the other general purposes of the Act. It does not mean a weak line competing with a strong line; it means systems which are able to compete for business on equal terms. This is indicated by the next provision which provides that these systems "shall be uniform so that they can employ uniform rates in the movement of competitive traffic and under efficient management earn substantially the same rate of return upon the value of their respective railway properties."

Congress recognized that to prepare such a consolidation would require intensive study and in order to have the benefit of the best information available, not only on the credit side but on the operating and the traffic side, it provided that a tentative plan should first be prepared for public discussion and should form the basis of the final plan. It recognized that even after the final plan was prepared some changes might be desirable and therefore, while it provided that future consolidations should be in harmony with the final plan, it nevertheless left some leeway for future modifications of such plan.

A tentative plan only involves dealing with the larger systems because the basic systems must first be determined and the natural place for the smaller ones can be determined only after the general plan is laid out.

There are many who believe that railroad consolidations on a large scale are impracticable, since the large number of roads in question involves such a conflict of interest that it will not be possible to lay out any plan which will prove to be satisfactory and protect the interests of all concerned. However, the problem does not appear to me to be quite as difficult as many people believe for great strides have already been made in developing a system of transportation along the lines contemplated by the Transportation Act.

In support of this statement I would call attention to the fact that on June 30, 1916, there were 169 Class 1 roads,—that is, roads earning \$1,000,000 and upwards. One hundred and nine of the 169 roads, through affiliations of one kind or another (stock ownership, lease or otherwise) are already concentrated within 30 systems and these 30 systems control 80 per cent of the mileage of the country and 88 per cent of the revenues. Seventeen additional Class 1 roads are similarly associated under 15 systems and 94 per cent of the railroad revenues of the country are therefore already centered in 45 systems. From these facts it is perfectly clear that unless the necessary coöperation can be secured by the representatives of these thirty systems it will be impossible to develop a comprehensive plan of railroad consolidations as contemplated by the Transportation Act. It is equally clear that if an agreement could be reached by the representatives of these thirty systems a comprehensive plan of consolidations would be very largely accomplished. Much of the difficulty in obtaining this coöperation is due to the quite general belief that the combining of the strong and the weak roads is to average the advantages and the disadvantages of the strong and the weak roads by taking the resources of the strong roads and turning them over to the weak roads.

I have discussed this subject at some length on page 25 of the pamphlet and perhaps I can make the matter clearer by reading the statement which appears on that page:

“Much of the opposition to consolidations has been and will continue to be based on the theory that their purpose is to strengthen the ‘weak’ by weakening the ‘strong’ roads and that the credit of the ‘strong’ roads will thereby be impaired. If this result is to follow, it goes without saying that voluntary consolidations in a large way will never take place.



"This conception of the problem, however, proceeds largely on the assumption that the 'weak' roads generally are less favorably situated. It does not take into account the fact that approximately 25 per cent of the country's traffic is handled by systems which are 'weak' only in their capitalization, but are similar to the 'strong' roads both in operating conditions and in favorableness of location, and, if similarly capitalized, would have similar financial strength. (The similarity and differences of these two groups of roads are fully discussed in Part 1, pages 10-15).

"The contention that the credit of the so-called 'strong' roads will be impaired by merging with the 'weak' roads, in so far as it applies to such systems as are here referred to, can be upheld only on the theory that the amount of existing capitalization rather than property value, is to be the controlling factor in determining the basis of consolidations, and that adjustment of capitalization to conform to property value is not to be made at the time or before consolidations take place. Such readjustments, however, are required by the provision of the Transportation Act which stipulates that the bonds at par of a corporation shall not exceed the value of the consolidated properties as determined by the Commission. Thus in the process of consolidation over-capitalization will be eliminated wherever it is found.

"The problem of consolidations, therefore, has to do largely with the merging of roads whose main difference is a matter of capitalization, inasmuch as the remaining roads—the less favorably situated—handle not over 15 per cent of the country's traffic.

"Even the absorption of these roads need not prove a burden, provided proper recognition is given to the property values and relative earning capacity of the several companies involved.

"While the complexity of the problem of harmonizing the many interests concerned is fully appreciated, it is sufficient here to say that, if the public interest requires that such consolidations be made, the difficulties of making them on a basis which will fully recognize the rights of all parties appear to be no greater than those which have been met successfully many times heretofore in railroad and industrial consolidations."

In the plan of consolidations which I have prepared I have been more concerned in presenting facts and figures to demonstrate the necessity of uniting the roads so as to create substantial

uniformity than to determine the particular grouping which would accomplish this purpose. In other words, I have been more interested in the practicability of such a plan than in working out all of its details.

I think it is clear that these systems must be similar in operating conditions and financial strength; and inasmuch as they must be strong units, it follows that they must be to a considerable extent similar in size. To carry out the purpose of the Transportation Act they must also operate in competition with other systems in the territory which they serve.

These systems are given in detail on pages 33 to 40. I will not attempt any detailed description of these systems. The statistical data on pages 44 to 46 will show the similarity of the different systems in each district, both in matters which relate to the character of traffic handled and the cost of handling the same. Attention may be called also to the similarity of results in operation under uniform rates.

My conception of a national transportation system such as is contemplated by the Transportation Act would be three or four New York Centrals or Pennsylvanias in the East, and five or six Atchisons, Northern Pacifics or Burlingtons in the West. This is in effect what I have attempted to bring about in the grouping which has been made.

The discussions in the pamphlet have been concerned mainly with the importance of sound credit and the suggested groupings have been developed to insure among other things the presence of this fundamental in each consolidated system. Consolidations, therefore, have been built around the strong systems—the roads which have established themselves in the confidence of the public by conservative policies both in matters which relate to finance and management.

In closing it may be said that the future railroad policy of the country as set forth in the Transportation Act is a policy of private management under public regulation; that in so far as a satisfactory system of public regulation can be established by legislation it has been established by the Transportation Act. While some modifications of the legislation will undoubtedly be made from time to time, nevertheless, the fundamental principles upon which it is based will not be substantially changed.

It is perfectly clear to me that if the Transportation Act is to work out successfully it must produce substantially uniform results. Such results cannot be obtained unless uniform operating and financial conditions surround the roads. In order to create such uniformity further consolidations must be made. Congress has provided a means by which these consolidations can be made by voluntary action on the part of the present owners and managers of the railroads of the country. If sufficient coöperation cannot be secured to produce this result by voluntary action then the next step will be either compulsory consolidations under private management, or more likely the establishment of Government ownership. [Applause.]

*The President:* Gentlemen, I see that your applause makes no comment on my part necessary. I do feel, however, that I want to say this: I have known John E. Oldham for some time, and the more I know him the better I like the work he does. I know he is too modest to say it, but this report is practically the result of an eight-year study. I presume he studied it somewhat before that but it really is the result of an eight-year study of the railroad situation. I think the Association is to be congratulated upon being able first to present to the public his revised results of his study of consolidations under the Esch-Cummins Act.

Gentlemen, we meet again at 2 o'clock this afternoon in this room.

## MONDAY AFTERNOON SESSION

OCTOBER 31, 1921

*The President:* Mr. White, are you ready to present the Finance Committee's report? We are ready to receive it now, Gentlemen: Mr. White, of Lee, Higginson & Co., Chicago, Chairman of the Finance Committee, will now present the report, which was omitted this morning.

REPORT OF FINANCE AND AUDITING  
COMMITTEE

Your Finance Committee has held regular monthly meetings and has approved all disbursements, confining such disbursements to the appropriations made by the Board of Governors.

As compared with income from dues, amounting to \$76,847.50, the total expenses of the Association have amounted to \$65,546.47, or about 85 per cent of the assured fixed income.

Under instructions from the Board of Governors and with a view to increasing the income from idle funds of the Association your Committee has authorized the investment of certain portions of such funds in United States Government securities, the income in this respect during the past fiscal year having amounted to \$4,581.13, in addition to \$1,281.01 interest received from bank balances.

Inasmuch as the membership fee of \$100 is not fixed income it has not been considered wise to treat income from membership fees as available for ordinary operating expenses, and under instructions of the Board of Governors your Committee has kept the income from membership fees (and also interest from investments) in separate funds and invested in United States Government 4 $\frac{3}{4}$ % Victory Notes. The holdings in the Special Investment Account, representing membership fees, amount to \$21,000 par value of Victory Notes.

The books of the Association have been audited by Arthur E. Andersen & Company of Chicago, Certified Public Accountants, a copy of whose audit is attached to and made a part of this report.

It is the opinion of your Committee that the accounts and records of the Association are in splendid condition.

Respectfully submitted,

S. W. WHITE, *Chairman.*

To the Board of Governors, Investment Bankers Association of America, Chicago, Illinois:

*Dear Sirs.*

As instructed, we have audited the records of the Investment Bankers Association of America for the fiscal year ended August 31, 1921, and submit the following Exhibits with our comments thereon:

Comparative Statement of Cash Receipts and Disbursements for the two years ended August 31, 1920 and 1921.....	Exhibit I
Comparative Statement of Committee Expenses for the two years ended August 31, 1920 and 1921.....	Exhibit II
Comparative Statement of Income and Expenses for the two years ended August 31, 1920 and 1921.....	Exhibit III
Balance Sheet—August 31, 1921.....	Exhibit IV

## CASH RECEIPTS AND DISBURSEMENTS

A condensed comparative statement of cash receipts and disbursements for the years ended August 31, 1920 and 1921, respectively, follows:

<i>Particulars</i>	<i>Fiscal Year Ended</i>		<i>Increase or Decrease*</i>
	<i>Aug. 31, 1920</i>	<i>Aug. 31, 1921</i>	
<b>RECEIPTS:</b>			
Dues and Fees.....	\$ 76,775.00	\$ 85,547.50	\$ 8,772.50
Contributions .....	550.00	.....	550.00*
Bulletin Builders.....	.....	12.75	12.75
Educational and Reclamation Books...	627.65	2,767.67	2,140.02
Interest.....	1,264.52	5,840.23	4,575.71
Securities Liquidated.....	28,000.00	47,500.00	19,500.00
Total Receipts.....	\$107,217.17	\$141,668.15	\$34,450.98
<b>DISBURSEMENTS:</b>			
Counsel.....	\$ 6,051.93	\$ 10,261.06	\$ 4,209.13
Salaries.....	10,492.50	13,230.00	2,737.50
Convention Expense.....	2,056.12	3,067.45	1,011.33
Rent.....	2,735.00	4,360.00	1,625.00
Publishing Annual Proceedings.....	2,862.35	3,772.02	909.67
Bulletin Service.....	5,126.26	7,345.07	2,218.81
Committees.....	5,745.87	11,871.30	6,125.43
Blue Sky Summary.....	.....	3,230.91	3,230.91
Other Expenses.....	5,626.11	8,596.86	2,970.75
Securities Purchased.....	86,055.60	70,534.60	15,521.00*
Total Disbursements.....	\$126,751.74	\$156,319.27	\$ 9,567.53
Excess or *Deficiency of Receipts over Dis-			
bursements.....	\$ 19,534.57*	\$ 5,348.88	\$24,883.45
Add Cash Balance at beginning of year....	38,766.98	19,232.41	19,534.57*
Cash Balance at end of year.....	\$ 19,232.41	\$ 24,581.29	\$ 5,348.88

Dues and Fees for the year under review show an increase of \$8,772.50, and represents additions to the membership during the year.

During the year ended August 31, 1921, dues applicable to the year 1921-1922 were collected as follows:

<i>Members</i>	<i>Class</i>	<i>Amount</i>
11	A	\$ 825.00
3	B	450.00
—		—
14		\$1,275.00

The increase in book revenue is due to large sales during the year of educational books.

The purchase of these books is classed as an Educational Committee expense and amounts to \$5,250.00. The total Educational Committee expense is \$6,234.98, which is part of the amount \$11,871.30 Committee Expenses shown in the above table. The total expenditure may be detailed as follows:

<i>Particulars</i>	<i>Number of Volumes</i>	<i>Amount</i>
Volume No. 3	1000	\$ 724.24
Volume No. 4	1000	1,455.55
Volume No. 5	1000	1,648.95
Volume No. 6	1000	1,421.26
Preparing new book*		610.00
Other Committee Expenses		374.98
	4000	\$6,234.98

\*Not printed.

The records being kept on a cash receipt and disbursement basis no inventory of books at August 31, 1921, was taken. It was found part of the books were at the Chicago office and part at New York.

The increase of \$4,575.71 in interest is due to the increased amount of interest bearing securities owned by the Association during the period under review as compared with the prior period.

During the year ended August 31, 1921, U. S. Certificates of Indebtedness to the amount of \$47,500.00 matured as compared with \$28,000.00 in 1920, which accounts for the increase of \$19,500.00 in cash received as shown above.

Disbursements for expenses as shown above were applicable to the year ended August 31, 1921. The Assistant Secretary informed us that there were no unpaid bills for the period under review and that all expenses incurred by the Association during the year were reflected on the books.

#### MEMBERSHIPS

The changes in membership during the year under review are shown in the following table:

<i>Particulars</i>	<i>Classification</i>			
	<i>A</i>	<i>B</i>	<i>C</i>	<i>Total</i>
Membership at September 1, 1920 .....	148	255	82	485
Changes in Classification .....	2	...	2†	...
	—	—	—	—
	150	255	80	485

†Decrease.

## ADDITIONS TO MEMBERSHIP:

Full Rate.....	50	20	1	71
Half Rate.....	12	3	1	16
Reinstated.....	...	...	1	1
Total Additions.....	62	23	3	88
Total.....	212	278	83	573
Losses during year.....	7†	13†	1†	21†
Per Membership record at August 31, 1921.....	205	265	82	552
Net Gain During Year.....	55	10	2	67

Cash receipts from membership dues and fees as shown by the books were reconciled with the above statement.

Memberships for the year under review show a net increase of 67 as compared with 52 for the previous year.

## SECURITIES

The securities shown in the following table were on hand at August 31, 1921:

<i>Particulars</i>	<i>Par</i>	<i>Cost</i>
<b>GENERAL INVESTMENT ACCOUNT:</b>		
U. S. Certificates of Indebtedness 5½%—due October 15, 1921.....	\$30,000.00	\$30,000.00
U. S. Certificates of Indebtedness 6%—due December 15, 1921.....	25,000.00	25,000.00
Total General Investment.....	\$55,000.00	\$55,000.00
<b>SPECIAL INVESTMENT ACCOUNT:</b>		
U. S. Victory Notes 4¾%—due May 20, 1923.....	21,000.00	20,242.90
<b>INTEREST INVESTED ACCOUNT:</b>		
U. S. Victory Notes 4¾%—due May 20, 1923.....	6,000.00	5,847.30
Total (Exhibit IV).....	\$82,000.00	\$81,090.20

## SCOPE OF THE AUDIT

The detail work performed, in addition to that already commented upon, included:

- (1) All cash receipts were traced to the bank statements and were found to have been deposited intact. The cash receipts record footings were also verified.
- (2) All vouchers covering disbursements were examined and found to be properly supported and approved.
- (3) All cancelled checks were examined and checked to the cash disbursement record. The cash disbursement record footings were also verified.
- (4) The cash balance per books at August 31, 1921, was satisfactorily reconciled with a certificate received from the National Bank of the Republic, Chicago, Illinois.

†Decrease.

(5) The Petty Cash Fund of the Assistant Secretary was verified by actual count and a certificate was obtained from the Secretary for the amount held by him.

(6) All of the securities owned by the Association were examined by our representative at the safety deposit vault of the Harris Trust and Savings Bank and found to be in accordance with the records.

We acknowledge the courtesies extended our representative during the course of the audit.

Very truly yours,

ARTHUR ANDERSEN & Co.,

Certified Public Accountants

*Exhibit I*

INVESTMENT BANKERS ASSOCIATION OF AMERICA

COMPARISON OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE FISCAL YEARS ENDED AUGUST 31, 1920, AND 1921

<i>Particulars</i>	<i>Fiscal Year Ended</i>		
	<i>Aug. 31, 1920</i>	<i>Aug. 31, 1921</i>	<i>Increase or Decrease*</i>
<b>BALANCE AT BEGINNING OF PERIOD:</b>			
Cash in Bank and on Hand.....	\$ 38,766.96	\$ 19,232.41	\$19,534.57
<b>RECEIPTS:</b>			
Annual Dues.....	\$ 69,975.00	\$ 76,847.50	\$ 6,872.50
Entrance Fees.....	6,800.00	8,700.00	1,900.00
Contributions.....	550.00	.....	550.00*
Bulletin Builders.....	.....	12.75	12.75
Educational Books.....	545.15	2,745.17	2,200.00
Reclamation Books.....	82.50	22.50	60.00*
Interest on Bank Balances.....	1,075.95	1,231.01	205.06
Interest from Investments.....	188.57	4,559.22	4,370.65
Securities Sold.....	23,000.00	47,500.00	19,500.00
Total Receipts.....	\$107,217.17	\$141,668.15	\$34,450.98
Total.....	\$145,984.15	\$160,900.56	\$14,916.41
<b>DISBURSEMENTS:</b>			
Special Counsel.....	\$ 2,695.90	\$ 2,579.00	\$ 116.90*
Office Counsel.....	1,200.00	2,400.00	1,200.00
Committee Counsel.....	2,156.03	5,232.06	3,126.03
Office Salaries.....	10,492.50	13,230.00	2,737.50
Convention Expense.....	2,056.12	3,067.45	1,011.33
Traveling Expense.....	760.78	1,006.80	246.12
Rent.....	2,735.00	4,360.00	1,625.00
Furniture and Fixtures.....	109.50	238.20	128.70
Printing, Stationery and Postage.....	2,048.81	3,930.97	1,882.16
Telephone and Telegraph.....	533.57	535.37	1.80



**DISBURSEMENTS—Continued:**

Publishing Annual Proceedings.....	2,862.35	3,772.02	909.67
Bulletin Service.....	5,126.26	7,345.07	2,218.81
Dues—Chamber of Commerce of U. S. A.	300.00	300.00	.....
Donation—Chamber of Commerce of U. S. A.....	.....	1,000.00	1,000.60
Auditing.....	100.00	100.00	.....
Sundry.....	829.20	739.13	90.07*
Extraordinary Expenses.....	169.25	.....	169.25*
Membership Signs.....	775.00	.....	775.00*
Securities Purchased.....	86,055.60	70,534.60	15,521.00*
Blue Sky Summary.....	.....	3,280.91	3,280.91
Stenographic Reports.....	.....	741.49	741.49
Book Refunds.....	.....	4.80	4.80
Committee Expenses (Exhibit II).....	5,745.87	11,871.30	6,125.43
<b>Total Disbursements.....</b>	<b>\$126,751.74</b>	<b>\$136,319.27</b>	<b>\$ 9,567.53</b>
<b>BALANCE AT END OF PERIOD:</b>			
Cash in Bank and on Hand.....	19,232.41	24,581.29	5,348.88
	<b>\$145,984.15</b>	<b>\$160,900.56</b>	<b>\$14,916.41</b>

**Exhibit II****INVESTMENT BANKERS ASSOCIATION OF AMERICA****COMPARISON OF COMMITTEE EXPENSES  
FOR THE FISCAL YEARS ENDED AUGUST 31, 1920 AND 1921**

<i>Particulars</i>	<i>Fiscal Years Ended</i>		<i>Increase</i>
	<i>1920</i>	<i>1921</i>	<i>or</i> <i>Decrease*</i>
Educational.....	\$ 524.88	\$ 6,234.98	\$5,710.10
Foreign Securities.....	835.28	502.50	332.78*
Fraudulent Advertising.....	.....	8.18	8.18
Government Bond.....	77.75	12.25	65.50*
Group Organizations.....	33.65	23.20	10.45*
Industrial Conference.....	440.00	.....	440.00*
Industrial Securities.....	34.10	27.03	7.07*
Legislative.....	117.01	245.87	128.86
Municipal Securities.....	11.75	494.20	482.45
Publicity.....	.....	5.00	5.00
Public Service Securities.....	2,160.50	214.00	1,946.50*
Railroad Securities.....	1,182.70	3,640.00	2,457.30
Real Estate Securities.....	.....	.....	.....
Reclamation Securities.....	.....	.....	.....
Syndicate Agreements.....	48.75	188.17	139.42
Taxation.....	279.50	275.92	3.58*
<b>Total (Exhibit I).....</b>	<b>\$5,745.87</b>	<b>\$11,871.30</b>	<b>\$6,125.43</b>

\*Decrease.

*Exhibit III*

**INVESTMENT BANKERS ASSOCIATION OF AMERICA**  
**COMPARISON OF INCOME AND EXPENSES**  
**FOR THE FISCAL YEARS ENDED AUGUST 31, 1920 AND 1921**

<i>Particulars</i>	<i>Fiscal Year Ended</i>		<i>Increase or Decrease*</i>
	<i>Aug. 31, 1920</i>	<i>Aug. 31, 1921</i>	
<b>INCOME:</b>			
Dues, Fees and Contributions.....	\$77,125.00	\$84,572.50	\$ 7,447.50
Educational and Reclamation Books.....	627.65	2,767.67	2,140.02
Bulletin Binders .....		12.75	12.75
Interest on Bank Balances .....	1,075.95	1,281.01	205.06
Interest on Investments.....	1,375.05	4,581.13	3,206.08
<b>Total .....</b>	<b>\$80,203.65</b>	<b>\$93,215.06</b>	<b>\$13,011.41</b>
<b>EXPENSES:</b>			
Special Counsel.....	\$ 2,695.90	\$ 2,579.00	\$ 116.90*
Office Counsel.....	1,200.00	2,400.00	1,200.00
Committee Counsel.....	2,156.03	5,282.06	3,126.03
Office Salaries.....	10,492.50	13,230.00	2,737.50
Convention Expenses .....	2,056.12	3,067.45	1,011.33
Traveling Expenses.....	760.78	1,006.90	246.12
Rent.....	2,735.00	4,360.00	1,625.00
Printing, Stationery and Postage.....	2,048.81	3,930.97	1,882.16
Telephone and Telegraph.....	533.57	535.37	1.80
Publishing Annual Proceedings.....	2,862.35	3,772.02	909.67
Bulletin Service.....	5,126.26	7,345.07	2,218.81
Dues and Donation—Chamber of Commerce of U. S. A.....	300.00	1,300.00	1,000.00
Sundries.....	829.20	739.13	90.07*
Auditing.....	100.00	100.00	.....
Extraordinary Expense .....	169.25	.....	169.25*
Membership Signs.....	775.00	.....	775.00*
Blue Sky Summary.....	.....	3,280.91	3,280.91
Stenographic Reports.....	.....	741.49	741.49
Book Refunds.....	.....	4.80	4.80
<b>Committees:</b>			
Educational.....	524.88	6,234.98	5,710.10
Foreign Securities.....	835.28	502.50	332.78*
Fraudulent Advertising .....	.....	8.18	8.18
Government Bond .....	77.75	12.25	65.50*
Group Organizations .....	33.65	23.20	10.45*
Industrial Conference.....	440.00	.....	440.00*
Industrial Securities.....	34.10	27.03	7.07*

**EXPENSES—Continued:**

Legislative.....	117.01	245.87	128.86
Municipal Securities.....	11.75	494.20	482.45
Publicity.....	.....	5.00	5.00
Public Service Securities.....	2,160.50	214.00	1,946.50*
Railroad Securities.....	1,182.70	3,040.00	2,457.30
Syndicate Agreements.....	48.75	188.17	139.42
Taxation.....	279.50	275.92	3.58*
<hr/>			
Total.....	\$40,536.64	\$65,546.47	\$24,959.83

Net Income Carried to Surplus (Exhibit IV) . \$39,617.01    \$27,668.59    \$11,948.42\*

**Exhibit IV****INVESTMENT BANKERS ASSOCIATION OF AMERICA****BALANCE SHEET, AUGUST 31, 1921****ASSETS****CASH:**

In Bank.....	\$24,581.29	
Petty Cash Fund.....	200.00	\$ 24,581.29

**INVESTMENTS AND ACCRUED INTEREST:**

U. S. Certificates of Indebtedness.....	\$55,000.00	
U. S. 4¼% Victory Notes.....	28,090.20	
Interest Accrued.....	1,206.39	82,296.59

FURNITURE AND FIXTURES (at Cost)..... 2,377.51

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\$109,257.39

**NET WORTH**

ADVANCE DUES—1921-1922..... \$ 1,275.00

**REVENUE SURPLUS:**

Balance, September 1, 1920.....	\$80,813.80	
Net Income for Fiscal Year ended August 31, 1921 (Exhibit III).....	27,668.59	107,982.39

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\$109,257.39

*The President:* You have heard the report of the Finance Committee, are there questions that you desire to ask regarding it, or is there any discussion of it? If not, the Chair will, without objection on the part of the members order it received and filed.

The next matter on the program is the report and discussion of the Education Committee. I may say that I think the members generally are fairly well familiar with the work that has been done by this Committee, which for the past few years has been composed of Mr. Lawrence Chamberlain and Mr. E. W. Bulkley. They have done a great deal of hard work and I think the work has been very well appreciated for the last two years in particular. Mr. Chamberlain, unfortunately, is not able to be present and I am going to call upon Mr. Prescott to read his report for him.

*(Mr. Prescott, of Prescott & Snyder, Kansas City, presented the report of the Committee.)*

## REPORT OF THE EDUCATION COMMITTEE

During the past year the Education Committee has continued its work on the series of volumes relating to the investment banking business which the Association has been publishing. Members have been informed of completed work through the *BULLETIN* and other communications from the Secretary's office. Since the last annual meeting of the Association the following books have been published:

"Legal Aspects of the Transfer of Securities," by H. Brua Campbell.

"Railroad Securities: A Course of Study with References," by A. M. Sakolski.

"Industrial Securities," by Clinton Colver.

Since the nature of these works, which were in process of preparation last year, was indicated in the report at the annual meeting in 1920 and later in the *BULLETIN*, the Committee will not now repeat the descriptions.

One book, "The Work of the Cashier's Cage," is still in course of preparation. This, and the book on "The Transfer of Securities," were intended to be supplementary and were planned with reference to each other. Mr. Frank Reed, a man of long special practical experience in this aspect of the work of an investment banking house, prepared a text. When it was completed the Committee decided that it wanted a substantial amount of additional matter, and as the pressure of his own work as a partner in an investment house made Mr. Reed reluctant to take on a further burden, the Committee appealed to Mr. Frederick S. Todman. He is also a man of special experience in this field. His book on "Stock Exchange Accounting" demonstrates his capacity for clear expression. It is expected that Mr. Todman will have completed his work by the time of the annual convention this year. Mr. Haubitzer, who is associated with Spencer Trask & Company, is, at the instance of Mr. Bulkley, giving the Committee the benefit of his suggestions. This book is covering carefully the cashier's work and the Committee feels that the members of the Association will welcome it.

Dr. Thomas Conway, of the Wharton School of Finance, University of Pennsylvania, has undertaken to write a volume on Public Utility Securities. It is contemplated that this book will be on a much larger scale than the previous publications presented by the Committee, and will cover the field in a comprehensive way. Dr. Conway's engagements as an expert in the field of public utilities, cause such a pressure on his time that it has required all Mr. Bulkley's persuasive powers to induce him to undertake the work. Dr. Conway is not stipulating any compensation for his own services but the Committee, whose authority of course expires with the year of its appointment, felt confident that the Association would back up a promise of the Committee that Dr. Conway should be reimbursed, within limits, for clerical assistance and other costs incident to the preparation of the book.

The Committee realizes that its work costs something and that it is its duty to produce the greatest possible value for each dollar of the Association's money. In the endeavor to make its work more nearly self-supporting it decided on an increase in the price of the books published, of which the members were notified when the new books of this year were published. This report will not go into

fiscal details but refers the members to the reports of the Treasurer and the Secretary.

Respectfully submitted,  
LAWRENCE CHAMBERLAIN, *Chairman*.

#### SUMMARY

Books published before this year:

"Courses of Study in Corporation Finance and Investment," by Hastings Lyon.

"Individual and Corporation Mortgages," by Wm. Lilly.

"Stock Exchange Business," by Prof. S. S. Huebner.

Books published during the year:

"Legal Aspects of the Transfer of Securities," by H. Brua Campbell.

"Railroad Securities: A Course of Study with References," by A. M. Sakolski.

"Industrial Securities," by Clinton Collver.

Books in preparation:

"Work of the Cashier's Cage," by Frank Reed and F. S. Todman

"Public Utility Securities," by Dr. Thomas Conway.

#### QUESTIONS

The Education Committee has published, or has in preparation, something in most of the fields in which the members of the Association are interested except Government and Municipal Bonds.

1. Should the Education Committee of the Association undertake the preparation and publication of a work on Government and Municipal Bonds? If it should, what should be the nature and scope of the work?

2. Have there been any generally helpful books on Salesmanship, and if so, is there any demand for one on Security Salesmanship?

3. How do you "educate" your men? i. e. What means do you take to see that they gain the necessary information and knowledge about their business? In what respect do the books of the Association help? What are their faults?

4. Suggest any other phases of investment banking that might properly be described and codified in texts.

*The President:* Gentlemen, this report does not require any action upon the part of the convention, but the Chairman as you can see has outlined a discussion of some of the subject-matter covered which is intended to be both for the benefit of the Committee in its future work and for the benefit of the members of the Association. In order that you may thoroughly understand the purpose of the Education Committee, and I have wondered at times whether the members in general have thoroughly understood it, I am going to ask the Secretary if he won't state very briefly what has been accomplished and what is being done by the Secretary's office in conjunction with the work of this Committee.

*The Secretary:* Mr. President, I have not prepared myself with figures because I did not know you were going to ask me to say anything, although we do have the figures. The Education Committee has issued six books. These books have met a very large sale. First, a great many of our members in the beginning paid little attention to them and then they came to the point of getting them introduced in colleges where they have financial courses. As a result after making expenditures year after year in the preparation of these books we now are getting an income from them. I have here, for example, from 1917 to 1921, the Association expended through the Education Committee \$12,065, in the last three years they have received back \$4,637 from the sale of books, and we also have on hand an inventory at the present time which covers \$3,476 and the books are going out steadily so that all this work of the Education Committee over a term of years will have only cost the Association about \$2,000.

There are a number of colleges that are adopting them as textbooks, and the Education Committee has a plan to go on further with this educational work, possibly to the extent of an employment bureau where men who take the courses in colleges and pass the prescribed examination will be certified by the colleges to the Education Committee. The services of these men as they graduate will be offered to our members. That is one plan. We have talked with a number of the members about it and they have said: "Why, we would be glad to take on a couple of college men when they come out after they have had this course which has been laid down by the Committee of the Association." Some of them have said they would take five of them. So the field is a very broad one.

Mr. Chamberlain has two or three more books in mind, but in his report he asked the opinion of this Association as to whether those books should be prepared. I am sorry he is not here because he has simply given about nine years to this work, he and Mr. Bulkley. It has always been a small committee. The men have given a great deal of time to it and a great many texts have been written by these men who have contributed their services.

*The President:* Gentlemen, the Education Committee has suggested the discussion of three subjects: First, should the committee undertake the preparation and publication of a work

on Government and Municipal Bonds; if it should, what should be the nature and scope of that work. I might say, and it goes without saying, if it should develop through discussion here that the committee felt warranted in going ahead with work on a text book of that character, they naturally would work in coöperation with the Government Bond Committee and the Municipal Bond Committee of this Association.

Gentlemen, have any of you anything to say on that subject?

*Mr. Ross* (Wm. L. Ross & Co., Chicago): Mr. Chairman, some of the older members of the Association will remember the hard work which I personally did, when this work started. I had the honor of suggesting that such a committee be appointed, and the naming of the three original members, Mr. Lawrence Chamberlain, Mr. Bulkley, and the late Mr. Albert Bullard. I am glad it was done. The work done by this committee was magnificent and several times in the last year or two the members of my own organization have stated that though this was a great book,\* how completely out of date the chapter on Government bonds had become. The book was written in 1908 or 1909, and in that period the whole attitude on Government bonds has shifted or changed, and it is time that an up-to-date treatise on Government bonds should be written. I feel very keenly that there is no work which the education committee could do that would be more valuable than to prepare just such a book as has been suggested. I accordingly move, if you wish a motion, that the Committee be requested to enter actively on the preparation of such a book.

*The President:* Mr. Ross, I don't believe that a motion is necessary. I think the Committee desired to get the sense of the meeting from a discussion on the floor. I am very glad you said what you did. Has somebody else something to say on the subject?

*Mr. Potter* (Wm. R. Compton Co., New York): Have you ever issued a publication that showed everything that has been issued on this subject?

*The President:* I think not.

*Mr. Potter:* I think that would be a very valuable thing, if it can be compiled and kept up to date.

*\*Principles of Bond Investment.*



*The President:* Has anybody else anything to say on this particular subject? Gentlemen, this is your meeting and I would like to hear from you.

*Mr. Prescott:* Mr. President, we have a great variety of Government bonds to deal with. The first impression is that this report has reference only to our own Government bonds. I think the intention of the questions must have been—though I will admit I have not read the report before this afternoon—must have been to cover a wider scope. If a work of this character could be prepared by a committee of the Association covering not only our own Government bonds, but the bonds of all other governments with which we are likely to come to deal, such as the United Kingdom, France, Belgium, Argentine, Brazil and so forth, and have it all in one volume for ready reference, I think it would be an exceedingly valuable thing in all our offices. I know we would appreciate it in ours.

*The President:* Mr. Hansell, have you any ideas on this subject from the Publicity Committee's standpoint?

*Mr. Hansell* (Redmond & Co., Philadelphia): No, this matter has never been discussed. I think it would be an excellent thing if we had a book on Government bonds covering foreign countries as well as America. If such a book could be published and the Education Committee could compile a supplement each year to bring it up to date, it would be an excellent thing, because a book gotten out now would be out of date six or eight months from now. It would be very desirable if it could be kept up to the minute.

*The President:* Does anybody else want to say anything on that particular subject?

*Mr. Prescott:* I might add a word to what Mr. Hansell has just said. The work would be a great deal more useful if it gave the fundamental principles or laws upon which these securities are based.

*The President:* The second subject the Committee desires discussion on is: "Have there been any generally helpful books on Salesmanship, and if so, is there any demand for one on Security Salesmanship." Gentlemen, that presents for your consideration a practical every day office situation. I wish somebody would start a discussion on this subject. Mr. Mulford have you any ideas on it?

*Mr. Mulford* (Ames, Emerich & Co., Chicago): Mr. President, I have one suggestion that has not been discussed at any length but I believe should be considered. I believe the BULLETIN should be expanded sufficiently to admit of timely articles pointing towards selling helps.

*Mr. Prescott:* I appreciate the force of that suggestion, if you want a discussion started. I am always willing to be contentious if there is anybody to be contentious with. I think the BULLETIN would be all right for piece-meal information, but this question seems rather to lead to some outline—some definite method of education which we could hand to our new employees who know nothing about the principles of salesmanship, to be used by them as a text book. We have many other publications which are a sort of bibliography but nothing in the way of a text or course of study. Babson has a book which is written not so much as an actual house of issue would desire it, but more from the standpoints of the theorists—the outside observer of market conditions. It seems to me that our Committee could prepare some sort of course of study which is not a mere bibliography telling what books to read and what not to read, but giving instructions on the fundamental principles of salesmanship to pass to our new men to study.

*The President:* Mr. MacGregor.

*Mr. MacGregor* (Glover & MacGregor, Pittsburgh): I observe there is a great lack of information or helpful suggestions to aid the man who comes out of college or comes into an office the first time to learn bond salesmanship, and with reference to Mr. Mulford's suggestion, I think the BULLETIN could be extended considerably and distributed much more widely, educating not only ourselves alone but the investing public, and especially what we characterize as the small buyer. I think if placed in the hands of people of ordinary means that would mean a very great extension of the list of people to whom it should be sent, but I think it could be developed into a very great adjunct of the Investment Bankers Association of America.

*The President:* Does anybody else care to discuss this point?

*Mr. Peirce* (Cyrus Peirce & Co., San Francisco): I am going to rush in where angels fear to tread. You cannot teach salesmanship in books. But I think there is a great need for publications

to be given to the candidate for position after you have employed him, which should precede any instruction in salesmanship to prepare his mind for the work that you are going to lay out for him. I would earnestly recommend that this Association prepare a book, "The Functions of the Investment Banker," to show the relation the investment banker has to the investor and to show the relation of the investment banker to the corporation that does the financing. To teach, in so far as possible, some of these young fellows who are starting into the business the real ethics of the investment banking business.

If you can ground the beginner thoroughly in that, in the things he should not do, you won't have as much work for your Ethics Committee. [Applause.]

*The President:* I think there is a great deal of force in what you have said, Mr. Peirce. We will be glad to hear from somebody else on this. I think we get a good deal from an exchange of experiences. That ought to be the value of these meetings. That is part of the purpose for which we come here, and if you remain silent we certainly can't get the things we need.

*Mr. Harris* (Harris, Small & Lawson, Detroit): Mr. Chairman, I want to take this opportunity of agreeing with the last speaker in one thing that he said particularly, and that is that you can't teach salesmanship in a book. I think some of the worst, most inane literature that has ever been published is on this subject of salesmanship. [Laughter.] I think I should hate to see as dignified an association as our own publish a book designed to teach salesmanship. I very heartily approve of a book on the ethics to be employed in the sale of securities. I think this whole business is on how you approach the thing. [Laughter and applause.]

*The President:* We are waiting for somebody else. We are just beginning to get into a little discussion of this matter. The Committee certainly cannot fail to benefit from anything that is said here and you are the ones we are serving in this matter. I am sure that the Committee would like to have the matter discussed further if you care to do so. If you do not we will go to the next question.

How do you "educate" your men? That is, what means do you take to see that they gain the necessary information and

knowledge about their business? In what respects do the books of the Association help? What are their faults?

Gentlemen, we would like to hear from somebody on this subject. Apparently this is a subject that everybody is interested in, but it depends upon somebody to break the ice. Perhaps somebody is afraid that he is going to give away the secret of his success—[Laughter]—but we must remember that this is more or less of a mutual proposition, that if you give away something somebody else is liable to give you something in return if you will just start the discussion.

*Mr. Prescott:* Maybe Mr. White can tell us something about what they are doing. He represents one of the leading houses in the distribution of securities.

*The President:* Mr. White, Mr. Prescott says that you are elected to suggest something.

*Mr. White:* The only effective method that we have had of taking the raw cub and pounding some bond lore into his head has been in a regularly organized school with a pedagog to keep him in line and to pound it into him through regular classroom methods. The one trouble that we have had with that method has been the difficulty of sizing up your applicant in advance to be sure that you are working on good material. Otherwise if you are not fortunate in the selection of the applicant you will find that you are going to a great deal of expense and a great deal of worry for you will find you have a "dud" at the end. I think that an educational course, a preliminary general survey of the field with the proper reference books that might be outlined by the Education Committee would serve as a splendid preliminary basis of training, and then from your men you could size up those who are able to qualify for the business and use your school as a finishing process which would confine your efforts only to the more promising of the prospects. The classroom method is undoubtedly the most satisfactory way of giving a man a comprehensive training in the field, because when a fellow reads himself without the groundwork in the business a great deal of it is over his head, but you can tell from those reading courses how much worth-while it is to retain them for further instruction. I think along the lines that have already been indicated that the Education Committee can, in a general way, map out a study course and a general book

on the theory of the bond business as it works out practically, that would be of great help in the training of these young fellows. [Applause.]

*Mr. Hansell:* We find in talking to men who come to us, as experienced salesmen, that many of them have little idea about the corporate structure of our industries such as railroads and public utilities. They know something about bonds and sinking funds and call-day maturities and such as that, but they do not have the proper mental idea in reference to the corporate structure of the companies. We have a book which was written a good many years ago by Professor Mead of the University of Pennsylvania, called Corporation Finance which is very good, and it takes up many subjects in reference to the formation of railroads and the building of electric light plants and so forth, and how bonds are issued.

*The President:* Gentlemen, is there anything else on this subject?

*Mr. Butler* (Peabody, Houghteling & Co., Chicago): I see next to the last sentence on this question "In what respects do the books of the Association help." I want to know how long the list of books is, that is recommended by the association, in addition to those actually published by the American Bankers Association; that is to say how large a list is available.

*The Secretary:* I believe that there has been as many as seventy-five letters written on that subject, with reference to the list of the books. The members do not read the bulletins which have been going out to you as regularly as clock work, with the names of the books and what they contain.

*The President:* I think perhaps Mr. Butler means that the bibliographies given in the books themselves are not complete enough. That is, not included in the reports and set out in the bulletins. Some of the books contain very thorough bibliographic references. I think that when you go back to Chicago, if you will step almost across the street to the Secretary's office and examine the text books there, you will get a good line on what he has and whether the books are sufficient to cover the subject.

Gentlemen, the purpose of the Education Committee, is to strengthen the bond business and to strengthen your methods of dealing among yourselves and among the public, and it is beginning to have exceedingly tangible results. When a young man goes

into college he may decide that he wants to go into financial work, or perhaps he has a leaning to finance and thinks he would like to go into investment banking and it means much for him to have a text book that is issued under the auspices of the Investment Bankers Association of America, and prepared by its Education Committee. If the student has placed in his possession a text book endorsed by the Association, when he gets out of school he naturally gravitates towards some member of the Association to form his future connections.

The last question that the Education Committee asks for suggestions in discussion is as follows: "Suggest any other phases of investment banking that might properly be described and codified in texts." The committee wants information on that subject if you care to give it. Has anybody anything to suggest in that connection?

*Mr. Baer* (Hambleton & Co., Baltimore): One thought which strikes me, in reference to the education of salesmen and as to the books on salesmanship, is that we should educate them a little along the line of the work in which they are engaged. So many salesmen go out with a fairly good knowledge of bonds, and salesmanship and they promise things regarding payments and deliveries and whatnot. In our own place there has been one continual struggle and turmoil between the sales department and the clearing department and I think a book could be written bringing forcibly to the attention of the salesmen the necessity of knowing what they are promising with regard to the payments and the kind of payments and the deliveries and so forth, and that it would be a very beneficial thing.

*The President:* I might say, you will find in the Secretary's report the titles of six volumes which have been published. Is there any further discussion on this subject?

*Mr. MacGregor:* I think there is too little attention paid to that subject by the salesmen.

*The President:* I do not want to stop the discussion, is there anything further?

*Mr. Biese* (Robinson-Humphrey Co., Atlanta): This is a very interesting subject and I would say that in my opinion a successful bond salesman is a man who works along psychological lines, and I think if a book could be written along that line, on

the subject of the psychology of bond salesmanship that it would be a very helpful thing to every bond salesman. It has been said that salesmen may be born, but I believe that a salesman who has the ability and knows the underlying secret which produces a sale can enhance his productiveness. In other words if a man knows when he makes a sale the secret underlying the method of making the sale, or the mental workings of the mind of his prospect and deliberately works along those lines, his efforts will be materially enhanced. I would like to say that I would be very much pleased to see a book written along the line of psychology of bond salesmanship.

*The President:* Gentlemen, the subject is open for further discussion if you care to have it. There is a stenographic transcript of the discussion being prepared which will go to the Education Committee and I am sure they will be benefited from it and that the Association will benefit directly from it.

*Mr. Otis (Otis & Co., Cleveland):* There is nothing so important I think as the salesmanship and the type of the men that we have in our institutions because they represent us and represent this great organization and really salesmanship after all is about all there is in life, because you are selling yourself from the time you are born; you first sell yourself to daddy to keep him from licking you and then you sell yourself to your best girl when you grow up. So I don't think that there is anything that can be put too strong which we can use in our recommendations with reference to the selection and training of salesmen. That is about all there is to it, provided that the securities are well bought and put in their hands for distribution. I find that one of the best methods of educating salesmen is to lead them to it, and show them the institution that we are endeavoring to finance, so that they may have a vision of the plant and of the country and we have found it very beneficial if these trips are properly conducted with a man's mind on a particular subject. And on these trips we try to get the men to talk nothing except about such things as taxes and things which relate to the financing of the institution they are going to see. I think that it is very beneficial to go through the plants and to meet the officers and to learn what it is about. The great trouble with salesmanship is to attempt sales without knowing what it is about, and I have seen salesmen trying to give their

prospects intelligent talk and trying to keep up a bluff as we used to do in school or in college, without knowing very much about what they are talking. And I believe every institution which will properly educate them is doing a great thing for their own success and as a representative of a great association, for these men come up against some wonderful salesmen, who can represent and misrepresent and get away with many sales which should not be made to the public, and to counteract that we must have our men so well educated that they can show the deficiencies to the customers as between the real securities and the ones that are being offered.

*The President:* Any further discussion?

*Mr. Monroe* (Watson, Williams & Co., New Orleans): With reference to the distribution of the books to which reference has been made in the outlines of the course, I think in the libraries in the larger cities and the libraries of the universities a good idea might be to form a library for each Group of the Investment Bankers Association. I know my personal experience has been that I have some of the books, but I do not feel that I can get all of them.

*The President:* Mr. Monroe, that has been done, so far as the universities have been concerned, and I think so far as public libraries are concerned, has it not, generally, Mr. Secretary?

*The Secretary:* The Committee through the Secretary's office has communicated with 486 colleges and universities in all parts of the United States. Of this number 177 replied stating they offered no courses in corporate finance and investment, 155 did not reply, and the Committee distributed copies to departments having these courses or, those who evidenced an interest, some 154 of them.

*The President:* I think Mr. Monroe's suggestion as to the distribution among the groups can be taken up. That has not been done very much for the reason that the groups have only been completely organized within the last six months.

Gentlemen, if there is nothing further on this subject let us go to the next matter, which is the report of the Marine Securities Committee. It is very short. Unfortunately Mr. Allen, of Lee, Higginson & Company, New York, the Chairman of that Committee, found himself unable to be present at the convention and I am going to ask Mr. Moore, of Barclay, Moore & Company, of Philadelphia, if he won't be kind enough to read this report.



## REPORT OF MARINE SECURITIES COMMITTEE

The depression which overtook the shipping business during the latter part of 1920 has put a complete stop to any sales of Shipping Board vessels. The present administration and the Shipping Board, however, have formally declared the Government's intention to bring about a private ownership of the Government's merchant tonnage as soon as practicable. Nevertheless, there is no possibility of such a program being carried out until business conditions generally have improved materially, and particularly, not until the Government establishes once and for all a definite policy for the development of the Merchant Marine, which has the confidence of those who are engaged in the shipping business. The new Shipping Board is making efforts along these lines, but there has not been sufficient accomplishment to date to indicate that a policy can be developed which will bring about private ownership.

The Ship Mortgage Act, 1920, still remains untested in any of the courts. Its validity in its remedial features is questionable, and until its constitutionality has been affirmed by the Supreme Court of the United States, it will be unwise for any banker to rely upon the Act as according the preferential character to the security which it purports to do. It is reported, however, that the Shipping Board is planning a test case, so that the constitutionality of the Act will undoubtedly be determined before any consideration will have to be given to the question of the validity of marine securities in the working out of the Government's program for a sale of its ships to private interests.

Respectfully submitted,

FREDERIC W. ALLEN, *Chairman.*

*The President:* Gentlemen, is there any discussion or question in connection with this report? If there is not, without objection the report will be received and filed.

We now come down to the report of the Taxation Committee. The report has been printed and is being distributed among you. Mr. Julian H. Harris of Harris, Small & Lawson of Detroit, the Chairman of the Committee, is going to outline certain features of the report and of the present taxation situation, which I think you will be interested in, and then the report will be open for discussion not only with reference to the questions outlined here but with reference to any questions on the subject that the members desire to bring up. Mr. Harris. [Applause.]

*Mr. Harris:* Mr. Chairman and Members of the Convention: The report which is being distributed I regret to say was written under extreme pressure. As you know the Congress is now engaged in the consideration of the revenue measure, and the logical place

for the Taxation Committee and its Chairman, even today, is in Washington. The report, unfortunately, has to be in certain respects, rather a prophecy than a statement of an accomplished fact. The report is very long and it is not desired that you take the time to listen to the reading of the report in full. There are a great many very interesting questions with regard to taxation which it is hoped we will be able to discuss on the floor of the convention this afternoon. I will waste as little time as I can in a brief summary of the report.

## REPORT OF COMMITTEE ON TAXATION

Since the Ninth Annual Convention of the Association, the country has experienced a change of political administration. At the time of that convention, both parties were pledged to a policy of tax reform and a reduction of the tax burden. The prospect seemed to be bright. Nevertheless, to those who had studied the situation, the task appeared to be greater than the promises of contending parties would have made it appear. The event has justified the latter view. Necessarily the work of your committee has been largely confined to watchful waiting and at the time of writing this report we are unhappily still waiting for a promised revision of our Federal tax laws. We do not say this in too critical a spirit. What study we have given to the subject has engendered a healthy respect for the magnitude of the task and we must not overlook the fact that some things have been accomplished and many have been set on the way.

All legislation pending in 1920 was terminated by the ending of the 66th Congress. The 67th Congress met in special session on the 11th day of April, 1921, and unfortunately proceeded to take up the question of the tariff, which has not yet been passed by both houses. In the meantime the Senate Finance Committee began hearings on internal revenue and your committee was engaged in watching the various proposals which came forward either as bills presented in the House or as statements before the Finance Committee. It is impossible to review all of these measures in this report. A statement was made on behalf of our Association before the Senate Committee which may be found in the report of those hearings.

### ECONOMY

There can be no reduction of the tax burden except by economy. This was clearly pointed out by the President when he stated in his message that of the two avenues of relief, "One is rigid resistance in appropriations and the other is the utmost economy in administration." The Secretary of the Treasury has stated in his letter to the Chairman of the Ways and Means Committee: "This is no time for extravagance or for entering upon new fields of expenditure \* \* \* Expenditure should not even be permitted to continue at the present rate. The country is staggering under the existing burden of taxation and debt and clamoring for gradual relief from the war taxation." It may be safely stated that this is the policy of the Administration and that every effort is being made to impress this upon Congress. We are beginning to learn that economy means in simple words to stop spending money, even to the point of going without what may be otherwise desirable.

The courageous message of the President in regard to the Soldiers' Bonus Bill and the passage of the Budget Bill are alike for the Administration and for Congress notable achievements.

On June 10th last, the Congress passed the Budget Bill, which will put the country on a budget system. It must be remembered, however, that the making of a budget does not insure economy but only tends toward that end to the extent that public opinion may be better informed and crystallized on the subject. If

the pressure to spend money continues to come from the country to Congress, not all the budgets in the world will prevent an extravagant appropriation. As long as about 80% of the revenue is provided by a direct tax on about 10% of the voting population, this pressure for extravagant expenditure will continue. It must also be remembered that due to our present system of taxation, the great bulk of our internal revenue is provided by the inhabitants of a very few states. This also tends to encourage national projects in fields already covered by, and properly we think, to be left to, the jurisdiction of the several states, such as projects of education and highway improvement. The pressure for the soldiers' bonus is constantly upon Congress and the indications are that the Congress will shortly yield to this pressure, which is coming from the legislatures of most of the States as well as from a large number of the voting population. The picture in this regard is not bright. We believe it is partly due to our present system of taxation, under which the Congress is justified in feeling that the mandate for expenditure proceeds from a politically more powerful source, and unfortunately a different source, than the plea for economy.

#### PRESENT METHOD OF TAXATION

Our Association was one of the first to publicly recognize the need of eliminating the Excess Profits Tax as a peace-time measure. Your Committee is thoroughly in accord with this. We feel that the provisions of the present law in that regard, while they may not bear as heavily at this time in money payment as the new proposed 15% tax because of our depressed business condition, do, nevertheless, in normal times tax almost to the point of destruction that element of profits which is and should be the insurance against risk, without which capital cannot be induced to promote legitimate business. The greatest objection to it, however, is found in the complexity of its provisions, creating doubt and uncertainty both to the Treasury and to the tax-payer, while the amount of the tax is often the result of accident in under-capitalization in the past with a very considerable premium put upon unsound finance by the escape of the over-capitalized or watered corporation from the burden borne by more conservatively organized enterprise. We do not think it necessary to go further into the evils of the present method of corporate taxation since we believe that the country has reason to feel assured that this method of taxation will be abandoned. If we are to keep our present system of graduated taxation based on ability to pay, then we believe that the ideal application of this system would be to make the individual the taxing unit and do away with any tax on business as such. Due, however, to the unpopularity attaching to the name, "Corporation," this is not now politically possible, though strangely enough, the new proposed revision will tend to drive many businesses now partnerships into corporate form. In addition to the Excess Profits Tax, we have the Income Tax on corporations and the graduated Income Tax on individuals. There are in addition the Transportation Tax and some selected Sales Taxes. A large percentage of the internal revenue is derived from a tax on incomes and profits. Incomes may shrink and profits disappear, while, if encouraged, both may increase. The fundamental evil of taxation based on ability to pay is that the ability to pay is sometimes destroyed by taxation.

In other words, a system of taxation which can and does interfere with the normal economic law regulating the flow of capital, carries in it an element of danger to the prosperity of the State which may outweigh the convenience of its application. We are, however, committed to this form of taxation and it consequently becomes increasingly important that these dangers should be minimized to the utmost. A later discussion of the proposed new revenue bill will more fully develop this subject.

#### REFUNDING

Your committee feels that the question of refunding is sufficiently germane to the question of taxation to require some attention in this report. Consideration of the question of refunding the early maturing obligations of the Government has led us to the following conclusion: We believe that the policy of refunding is economically sound and humanly just to the extent that it spreads over the present and immediately succeeding generations the necessary burdens of the war which was fought for them as well as for ourselves, and that the economic soundness of the same is further emphasized by the desirability of removing a part of the strain from the present already overburdened period of reconstruction. Nevertheless, we feel that it is neither sound economy nor elemental justice to pass on to future generations any present unnecessary extravagance, and we are of the opinion that the whole question of refunding should await the actual effecting of economies, promised by the present administration. The outstanding Treasury Certificates are at present largely absorbed by what may be called investment money. The country is to be congratulated upon the way this has been handled and the hope may be reasonably indulged that the present liquidation is sufficiently advanced so that there may be no danger of these Certificates being thrown back on the hands of the banks. If this is so, there is no pressing need for refunding.

#### SOLDIERS' BONUS

There are several bills now pending in Congress for the granting of the Soldiers bonus. These bills do not carry revenue provisions. Should they be passed, the estimated direct cost of the federal soldiers' bonus would be \$3,000,000,000.00. This is in addition to the present Government provision for the care and re-education of the disabled soldiers. The estimate of this latter item indicates that for the fiscal year ending June 30, 1922, an annual expenditure will be made by the Government amounting to \$443,600,000.00. It is calculated that this sum will increase in amount every year until 1927.

Your committee feels that the entire Soldiers' Bonus matter, which should not be confused with the care of the disabled soldier, hangs like a cloud over the fiscal policy of the Government and makes a difficult situation more obscure. Since the bills carry no revenue provisions it is not felt that they require any further discussion at this time.

#### TAX EXEMPTIONS

Your committee is heartily in accord with the position already taken by the Association in regard to doing away with tax exemptions on the income from

municipal bonds thereafter issued. We understand the position of the Association in that regard to include the provision that the same should be done in an orderly manner by constitutional amendment, which should include a reciprocal right to the States to tax the income from Federal securities with proper safeguards on both sides against the power to destroy which is always inherent in the power to tax. Your committee feels that the entire evil arising from the purely fortuitous existence of so-called tax exempt securities would disappear upon the reduction of the surtaxes. It is the high surtax which constitutes a dam thrown across the normal flow of capital into productive enterprise, diverting it to the tax exempt and, in a sense, non-productive municipal security. It is at least open to doubt whether it is the ultimate solution of the problem to erect another dam to correct the evil of the first and thereby raise the interest rate for necessary municipal borrowing, with a consequent increase in local taxation.

Nothing illustrates the evils of the present system of taxation better than the abnormal flow of capital to municipal securities. They should be absorbed by institutional buying and by the investment of trust funds, while business enterprise should be able to draw upon large accumulations of capital which should be encouraged to take the risks incident to business progress. We all know that precisely the opposite situation obtains today. We sell municipal bonds in large blocks to wealthy men and industrials in small blocks to men of very moderate means. Any system of taxation which brings about this result is inherently bad and in the end will become non-productive. Capital cannot be made to flow uphill. We may not like it, but such is the fact, as unalterable as the law of gravity.

#### THE PRESENT PROPOSED REVISION

On August 20, 1921, the House of Representatives passed an act to reduce and equalize taxation, to amend and simplify the Revenue Act of 1918, and for other purposes (H. R. 8245). This bill was sent to the Senate and referred to the Committee on Finance September 21, 1921, and was reported out with certain amendments on September 26th and after being recommitted to the Committee is now on the floor of the Senate for passage. The amendments made by the Senate Committee were so comprehensive as almost to constitute a new measure. There is little doubt that this measure will be shortly passed by the Senate and be sent to conference and become the internal revenue law in something like its present form. The only other bill which appears as a possible substitute in whole or in part is a form of manufacturer's sales tax proposed by Senator Smoot. Your committee is somewhat embarrassed by having thus to prophesy, but the situation at the time of writing this permits of nothing else. It becomes necessary then to consider the general aspect and some of the provisions of H. R. 8245 now on the floor of the Senate.

#### GENERAL ASPECTS OF THE BILL

In the absence of a Sales Tax, which seems to your committee a very remote possibility at this time, the next revenue law will be merely a revision of the Revenue Act of 1918, and will leave the country committed to a tax on profits and incomes for a large percentage of its revenue. The expenditures for the fiscal year ending

June 30, 1922, are estimated by the Treasury at \$4,034,000,000.00. Customs and miscellaneous non-tax receipts will yield, it is estimated, \$762,000,000.00, leaving \$3,272,000,000 to be raised by internal taxes.

The Excess Profits Tax is repealed as of January 1, 1922, as is the Capital Stock Tax. The Transportation Tax is reduced for the year 1922 and repealed as of January 1, 1923. From the standpoint of tax payment, there is no practical relief for the year 1921, yet for the fiscal year ending June 30 last, the actual collections were \$5,623,506,745, while the estimated collections for the ensuing year are \$4,068,600,000, which seems to indicate that the present and proposed method of taxation has reached and passed the limit of its productivity and is on the downgrade. It is probable that the Capital Stock Tax will be retained.

The surtaxes are kept the same for the year 1921, with the old maximum of 65%. For the year 1922 and thereafter they are slightly reduced on the lower brackets and the maximum is 32% on all incomes over \$66,000. It is likely that this maximum will be increased to 50% by the Senate (since writing this report this has already been done) and perhaps reduced again to 32% in conference. As reported by the Senate Committee, the effect of the high surtaxes is reflected in the following figures. In 1916 the number of returns of incomes over \$300,000 was 1296. In 1919 they fell to 679. The total net incomes of these taxpayers fell from \$992,972,986 in 1916 to \$440,011,589 in 1919 and the taxable income from these taxpayers fell in the same period from \$706,945,738 to \$314,984,884. It must be remembered that 1919 was a year of prosperity. It is quite obvious that the present higher surtaxes have ceased to be productive of revenue and have either driven the capital from which they were derived, from productive enterprise to non-taxable securities, or have caused them to divide their income by gifts, to refrain from profitable sales, or to seek investments which yield no immediate return. It is apparent now to everyone that the system of graduated surtaxes has a maximum limit of productivity beyond which we have already gone.

To summarize the general aspects of the Bill, it is sufficient to say that it is an attempt to make the rapidly failing Act of 1918 productive of sufficient revenue to meet the needs of the Treasury. It is not the general revision of our tax laws for which we hoped and the fear may be reasonably entertained that it in turn will prove to be a temporary measure.

Among the general aspects of the bill it must be noted that whether the maximum surtax rate is finally fixed at 32% or 50%, the varying yearly profits of active business will continue to bear its heaviest burden, as compared with the periodic secure income of the investor in securities. Believing, as the Association has repeatedly stated, that the long time finance of the country can be sound only as its general prosperity is assured, your committee has taken the position that the principle of the graduated surtax should be applied as far as possible to secure incomes rather than incomes the result of present active business effort. There is too much discouragement of the latter. The inequality in this regard is apparent from the following example: A business man earning \$100,000 one year, \$5,000 the next year, and losing \$60,000 the third year, will be taxed at a rate predicated on a yearly income of \$100,000, although in fact earning only \$45,000 in three years, or at the rate of \$15,000 a year. His surtax alone with a 32% maximum

will be about \$21,000, with 50% maximum about \$23,700; while the surtax of the investor with a periodic income of \$15,000 will be \$340 a year or \$1,020 for the three years. To try and mitigate this tremendous injustice we have tried to secure an averaging of incomes but without success, as the administrative difficulties raised by the Treasury seemed to preclude the same. We have now suggested a 30% credit on the income from a trade, business or profession or from salaries, commissions, fees or other compensation for personal services. This would also help the inequality between corporate and partnership business. The loss of revenue from this might at first be considerable, variously estimated at from \$75,000,000 to \$100,000,000, though we are confident the provision would in the end be productive rather than destructive of revenue. Nevertheless, the present needs of the Treasury are such that unless another means of taxation is brought forward to meet this loss, the provision has little chance of prevailing.

#### SOME SPECIAL PROVISIONS OF THE BILL

The foregoing comments, where they are necessarily of a critical nature, are directed to a system of taxation to which the country was committed even before the war and which the burdens of the war have strained to the breaking point.

From an administrative standpoint, the Senate Bill is a decided improvement both on the law of 1918 and upon the House Bill. It also will afford some relief to the burden of taxation.

#### CORPORATE TAXATION

As we have stated, the Excess Profits Tax is retained for 1921. Thereafter a new flat tax of 5% is added to the present 10% tax on corporate profits to provide the revenue lost by the repeal of the Excess Profits Tax. This will not lighten the burden of money payment in the majority of cases. The corporation earning less than 11% on its capital will pay more and those earning more than 11% will pay less than under the Excess Profits Tax. The proposed 15% is too high, but the administrative advantages both to the Treasury and the taxpayer are considerable and many inequalities between competing concerns are done away with. Some business interests have been found which are opposed to the repeal of the Excess Profits Tax, but it is generally felt that they have special circumstances, which throw doubt upon the sincerity of their position. As we have stated before, the ideal system would be no tax at all on corporations, thus making the individual, after distribution, the taxing unit. Since corporations must retain undistributed profits to the point where sound finances requires this action and since that point is always a debatable question, no system has yet been devised to justly attain that ideal. A tax on undistributed profits puts a premium on unsound finance and is more to be avoided than the present tax, whatever inequalities may arise therefrom. These inequalities under a flat 15% income tax on corporations will develop between corporations and co-partnerships.

Ignoring the Capital Stock Tax and the distribution of the corporate profits on the one hand and the outside incomes of the partnership members on the other hand, we have the following comparative figures on the relative burden of the proposed bill on a corporate and non-corporate business:



<i>Income</i>	<i>Inc. Tax</i>	<i>Rate about</i>	<i>Corporation Tax Rate 15%</i>	<i>Diff.</i>
\$ 32,000	\$ 4,800	14.5%	\$ 4,800	\$ 200
66,000	15,000	23%	9,900	5,100
100,000	29,000	29%	15,000	13,800
300,000	109,000	36%	45,000	64,000
1,000,000	389,000	38.9%	150,000	239,000

The above figures are based on a maximum of 32% of surtax; with a maximum of 50% surtax, the difference would be materially greater.

Manifestly under the proposed bill, the large privately owned businesses will be compelled to incorporate. This we think is to be regretted since many men, particularly among investment bankers, hold with a great deal of pride to the "partnership" idea and ideals. Leaders of both parties at times join in decrying corporations. They are joining now in forcing the incorporation of all the business of the country.

It is not possible within the limits of this report, already too long, to discuss every change made by the Bill in the existing law. There are, however, nine provisions which require special mention.

#### BASIS FOR DETERMINING GAIN OR LOSS

Following the decisions of the Supreme Court in the case of *Goodrich vs. Edwards and Walsh vs. Brewster*, the Bill states explicitly the method of treating gain or loss accrued prior to March 1, 1913. The general basis of this provision appears to be the correct one, viz: That any gain or loss must be an actual gain or loss measured from the cost or acquisition value and not by the March 1st value, the gain or loss accruing before March 1, 1913, being excluded for the purpose of computing net income subject to tax. If the market value March 1st is in excess of the cost, the gain to be included shall be the excess of the amount realized over such March 1st value. If the March 1st value is lower than the cost, the deductible loss is the difference between the amount realized and the market value March 1, 1913. If the amount realized is more than the cost but not more than the market value of March 1, 1913, or less than the cost but not less than the market value of March 1, 1913, no gain or loss is allowed. It will be noted that if property is sold at a price below the value of March 1, 1913, the taxpayer has not necessarily a deductible loss. We believe they should have gone one step further and made all losses from March 1, 1913, deductible.

#### EXCHANGES OF PROPERTY

A new rule is provided for exchanges of property. The presumption in the present law is in favor of a taxable gain resulting from an exchange of property. The new provision modifies this presumption by stating that no gain or loss shall be recognized unless the property received has a readily realizable market value, and further states that there shall be no taxable gain even where the property received has a realizable market value, when the property exchanged being held

for productive use in trade or business, not including stock in trade or other property held primarily for sale, is exchanged for property of a like kind or use. It seems to the Committee that this provision, while sound in principle, may be made the occasion for some tax avoidance. It would probably have been better to have left more discretion to the commissioner in that regard.

#### SALE AND REPURCHASE OF IDENTICAL SECURITIES

Of a somewhat similar nature is the new provision prohibiting the taking of a loss where it appears that within thirty days after the date of such sale a taxpayer acquires identical property. This is aimed at what has perhaps been a real evil. The term, "Identical," however, will be open to various constructions which will tend to throw doubt upon the rights of the taxpayer. There is no doubt that there are many legitimate transactions of this character not taken for the purpose of establishing a loss. The provision seems somewhat arbitrary and the term, "Identical Property," will invite doubt and litigation and its judicial interpretation may in the end nullify the purpose of the provision.

#### NET LOSSES

A major change in the existing law is found in the Net Loss provision. Section 204 of the Bill provides that if for any taxable year beginning after December 31, 1920, it appears, upon the production of evidence satisfactory to the commissioner, that any taxpayer has sustained a net loss resulting from the operation of any trade or business regularly carried on, the amount thereof shall be deducted from the net income of the taxpayer for the succeeding taxable year, and if in excess of the net income for such succeeding taxable year, then the excess shall be deducted from the income for the next succeeding taxable year. However, in order to establish such net loss, the taxpayer must include in his gross income his income from sources outside his trade or business, and any interest received from tax-free sources, plus the amount of deductible losses not sustained in such trade or business plus certain other items otherwise allowed as deductions. The provision is designed to give relief to an old injustice which we have long recognized, viz.: The excessive burdens borne by the active business man whose income fluctuates widely between a profit and a loss. It is an attempt to allocate losses without averaging profits. Hence it affords no relief to the taxpayer who makes a large profit one year and a very small profit the next. It is, however, an improvement over the present law and under a flat rate of tax as now proposed for corporations, the provision is in principle sufficient, but under the graduated system, which remains applicable to non-corporate business, it is wholly inadequate. The average concern is apt to show a small income, even in a poor year, and a graduated tax, predicated on a yearly income, operates to tax the accidental realization of a single year to a point where the average tax is out of all proportion to the average income. In detail it will be noted that in order to establish a net loss it is necessary to include the profits made outside the trade or business without receiving any credit for the deductible losses sustained outside the trade or business. It is difficult to see the exact justice of this position. Perhaps of more interest to our members is the fact

that the provisions of the Bill at the time of writing this report do not permit the taxpayer in establishing a net loss, to include the interest paid to carry tax-free municipals, although the income received from the tax-free municipals must be included in gross income. Your Committee has pointed out this obvious injustice and we are hopeful that the provision will at least be amended to permit the dealer to offset against his interest from municipal bonds a similar amount, if paid in interest, for carrying the same. We feel we should be allowed the deduction of the entire interest paid, but we will probably have to be content if we receive the amendment proposed. In general, the Net Loss provision will work for some justice in extreme cases, but will not afford much relief to going business.

#### CAPITAL GAIN AND LOSS

Another major provision of the Senate Bill which is a distinct improvement upon the House Bill is the provision that only 40% of the net gain derived from the sale or other disposition of capital assets shall be taken into account in determining the net income upon which the income tax is imposed. The term, "Capital Assets," includes property held by the taxpayer for profit or investment, but does not include property held for the personal use or consumption of the taxpayer or stock in trade, which would properly be included in inventory. The term, "Capital Net Gain," means the excess of the total amount of capital gained over the sum of the capital deductions and capital losses. The provision will give substantial relief and permit the sale of capital assets, which have heretofore been prevented by the fact that gains and profits earned over a series of years are under the present law taxed as a lump sum and the amount of surtax excessively enhanced thereby. If the maximum rate of surtax is kept at 32% plus a normal 8%, then, as only 60% of the capital net gain will be taxed at the maximum of 40%, the real maximum applicable to capital net gain will be 16%. The provisions of the House Bill in this regard were complicated and inadequate. It is hoped that the Senate provisions will be adopted.

#### ALLOCATION OF LOSSES

A new provision is found in the deductions allowed to individual taxpayers, that losses shall not be deducted as of the taxable year in which sustained if in the opinion of the commissioner, they should be accounted for as of a different period in order to accurately reflect the income. Your committee has been assured that this provision is inserted in the Act for the benefit of the taxpayer and while we have no reason to doubt the sincerity of this assurance, we believe it would have been safer had the Bill provided that the allocation of losses to other years should have been made by the commissioner on the request of the taxpayer.

#### GIFTS

A new provision with regard to determining the gain or loss sustained from the sale of property acquired by gift is found in Section 202 of the Bill. It is provided that in the case of property acquired by gift after December 31, 1920, the basis shall be the same as that which it would have been in the hands of the donor or

the last preceding owner by whom it was not acquired by gift. This is a most important provision, although it has no direct bearing upon the business of investment bankers as such. While it is aimed to prevent tax avoidance by gifts made for that purpose, it may tend to restrict the creation of living trusts, which are in many instances most desirable. This could be corrected by a provision that in certain instances the basis should be the market value of the securities at the time of the death of the donor. Your Committee has attempted to call the attention of Congress to this phase of the subject.

#### EVASION OF SURTAXES BY INCORPORATIONS

Section 220 of the Bill provides that if a corporation is formed or availed of for the purpose of preventing the imposition of the surtax upon its stockholders by permitting the profits to accumulate beyond the reasonable needs of the business, then there shall be levied an additional tax of 25% of the net income of such corporation, provided that as an alternative the stockholders may agree to be taxed upon their distributive shares in the same manner as members of a partnership, such tax in that event to be in lieu of all income taxes upon the corporation. This provision will doubtless be administered with due regard to sound corporation finance, and if not used to force undue distribution of needed surplus, should not work to the injury of the honest taxpayer.

#### GENERAL ADMINISTRATIVE PROVISIONS

There are a number of general administrative provisions which appear to be well considered and upon which the limits of this report do not permit us to comment in detail. There are certain new limitations upon suits and prosecutions. The commissioner is authorized to reverse prior regulations, not occasioned by the decision of a court, without retroactive effect. Perhaps the most important of these provisions is the one giving the commissioner, with the consent of the taxpayer, the authority to reach a final settlement in tax cases, which shall not be reopened or modified by any agent of the United States, or annulled or set aside by any court of the United States. This provision is designed, and we think properly so, to promote expedition in handling tax cases and insure certainty in tax adjustment.

Your Committee has been very much interested in studying the various proposals for a Sales Tax. We believe that a low-rate, general turnover tax with compulsory requirements to invoice the amount of the tax, upon which invoices the non-integrated manufacturer could obtain a credit on his tax, thus preventing the inequality between the integrated and non-integrated business, is the ideal Sales Tax. An extended discussion of the matter in this report is not practicable, but we hope for some discussion of the question on the floor of the Convention. If some form of the Sales Tax could be substituted for all other taxes on business as such, there is no doubt it would be the solution of many of our major difficulties. We feel that the time has not yet come when that is a political possibility. That time may come much sooner than many of us have thought and we recommend the entire question of sales taxes, upon which the literature is voluminous and illuminating, to the careful consideration of your next committee and the members as a

whole. No well considered proposal for a Sales Tax has included credits as articles of sale for the purpose of the tax. The advocates of the Sales Tax do not regard the fact that it is a consumption tax, as an argument against it but rather as an argument for it. The most cursory examination of the subject discloses the fact that the borrower of money is more analogous to the consumer of goods than is the purchaser of securities. On that account, your Committee has already felt that it must be left to others whose business is more directly affected to point out the benefits, if they are realizable, of this form of taxation.

As we stated at the outset, the writing of this report is made at a time when the pending tax measure is on the floor of the Senate and its provisions are being changed almost daily. We believe that the provisions of this Bill constitute the most important question before the American people today and we urge upon all of the members of the Association that if this report shall be adopted by the Tenth Annual Convention, it should carry with it a request to every member of the Association to study the provisions of this Bill and to interest himself in a subject which we cannot help but feel is being sadly neglected, not by the Congress, but by the country as a whole; that this be done not for the purpose of securing to ourselves any selfish advantage, but to the end that the general prosperity of the country may be assured in the realization that this alone is the basis of sound finance.

Respectfully submitted,

JULIAN H. HARRIS, *Chairman.*

*Mr. Harris* (continuing): In general the report has three broad aspects. In the first place there are some comments on the subject of economy. The importance of that question should not be minimized by the fact that it is such an obvious necessity today. As a matter of fact, gentlemen, the whole question of economy is very much bound up with the matter of the system of taxation. It is a very large question whether or not economies can be effected under the present system of taxation. I mean by that, of course, that the administration of the Government can be of such a character that waste will be cut off, but economy does not alone consist in the reduction of expenditures by departments of Government, but has something to do with the appropriations made by Congress which are in a sense two different things.

As you will notice in the report last June, Congress passed an act for a federal budget, something that the country has hoped for for many years. Nevertheless the making of budgets does not necessarily imply economy. If Congress goes on appropriating moneys the making of budgets will not stop those appropriations. Economy can only come when the voters of the country send a mandate to Congress for economy in appropriations, as well as a

mandate to the administrative side of government for economy in administration.

The second aspect of the report is in general a criticism of our present and proposed method of taxation, and when I say criticism I do not mean a criticism of either House of Congress or of the administrative officers, but I mean some attempt at constructive criticism of a system of taxation to which the country was committed some years ago and before the war. This, as I have said, has a very definite bearing on the question of economy. It is a question whether a mandate for economy can be forthcoming under the present system of taxation.

The balance of the report is taken up with a discussion of some eleven or twelve specific provisions of the proposed bill.

As you know, Congress was called in special session early in April of this year. I think the country at large understood that the main purpose of this special session was to revise our revenue laws, and particularly our laws with respect to internal revenue, in other words, taxation as we understand it. We are now in November, and the expected revision has not yet taken an entirely definite form. I do not wish to be understood as stating that in an unduly critical way. The Committee on Taxation has in its labors for the last year, acquired a very healthy respect for the magnitude of the task. It is not an easy one that confronts the Treasury on the one hand, and Congress on the other. Nevertheless the fact remains that after a good many months we have not yet attained what the country had a right to expect from the platforms of both parties written previous to the last election. These promises are easily made and very difficult of fulfillment.

With respect to the general system of taxation we must bear in mind that it is largely based on the taxation of profits and incomes. We have of course the tariff, but the large percentage of the money necessary to support the Government in these times of great governmental burdens is raised by internal taxation which is something quite new, that is, new within the period of five or six years to the American people, and in a very large measure that revenue is produced by taxing profits and incomes. Profits have a habit of disappearing and incomes are subject to reduction. The power to tax is the power to destroy, and any system which undertakes to raise the bulk of the revenue by taxing incomes and

profits must in the end be judged somewhat, at least, from the standpoint as to how much it interferes with the production of those incomes and profits.

That is being brought home very clearly to us today because there is very little doubt that our present system of taxation of incomes and profits has passed beyond the point of productivity. In other words, the tax has become sufficiently burdensome so that there is a very settled conviction in the minds of thoughtful people that the tax as we now have it is rather destructive of revenue than productive of it.

The system of taxation as I have stated before, has a very direct bearing on the whole question of economy. If, gentlemen, the great bulk of the revenue is going to be collected from 10 per cent of the voters there is very little doubt that Congress is justified in supposing that the mandate for expenditures is greater than the mild plea for economy, the one coming from 90 per cent of the voters for expenditure, and the plea for economy coming from 10 per cent of them. As long as that system exists of taxing only 10 per cent of your voters for a large proportion of your revenue, it is going to be very difficult to have economy in appropriations.

Our system of taxation, as you know, involves the principle of taxation based on ability to pay. I think that is a very unfortunate phrase. It has been used to justify many things which I believe are economically unsound. Taxation based on ability to pay takes its concrete form in the graduated surtax. To my mind, and it is reflected in the report of the Committee, the great and inherent evil of our system of taxation is that it unduly interferes with the normal economic flow of capital. The purpose of taxation should be solely to raise revenue and any system of taxation which arbitrarily interferes with the normal flow of capital carries a grave danger in it to the prosperity of the country. We know that the surtaxes have resulted in the withdrawal from productive enterprise of a very considerable amount of the capital of this country. The figures given in the report of the Finance Committee of the Senate demonstrate that very clearly.

Roughly, to recall them to your mind, in 1916 the number of returns of incomes of over \$300,000 was some 1200 returns. The number of those incomes in 1919, which you will recollect was a

year of prosperity, had fallen to some six hundred odd returns. The amount of income returned in 1916 from those returns was some nine hundred and ninety odd millions of dollars. In 1919 those incomes returned had fallen to some four hundred and forty odd millions. The exact figures do not matter, but they had fallen 50 per cent approximately. Now we all know that those incomes existed and probably in larger degree in 1919 than they did in 1916, but the figures demonstrate almost to a mathematical certainty two things, one that the surtaxes employed had gone beyond their point of productivity leaving the revenue return on the down grade, and the other that the capital producing those incomes had been withdrawn to a very considerable extent from productive enterprise.

I think perhaps that is enough to characterize the present system of taxation with reference both to its productivity from the standpoint of the Treasury, and with reference also to its effect on the possibility of economy in appropriation, and you gentlemen know, and none better, its effect on the capital available for productive enterprise and the consequent effect on the general prosperity of the country.

The third part of the report is taken up with particular provisions of the bill. The picture produced by an analysis of the effects of our present system of taxation is not a particularly bright one. However, some things have been accomplished and others have been set on their way. The President, I think, has demonstrated that economy is the policy of the administration, and certainly the Secretary of the Treasury in his communications to the Chairman of the Committee on Ways and Means has very emphatically stated that this policy is urgently required by the condition of the treasury.

The very courageous message of the President with regard to the Soldiers' Bonus Bill I think is an aspect of that policy. The passage of the Budget Bill I think is designed to promote the same end. The new tax bill proposed, which may be regarded as the administration measure, first passed by the House and later amended by the Senate Committee on Finance and reported back to the Senate, and now on the floor of the Senate, does but few of the things that were hoped for, from the new administration. I will run over those provisions very hastily.



The excess profits tax—and this Association was one of the first bodies to recommend its repeal as a peace time measure—is repealed in the Senate Bill for the year 1922. It was to be hoped, perhaps, that the excess profits tax would be repealed for 1921. I do not think it is going to make very much difference to business with regard to 1921. The burden of payment under the excess profits tax was not the principal evil of that method of taxation. It was its complexity and uncertainty, and I think it is fair to assume that after this year we are through with that. In place of the excess profits tax we have an additional tax on corporation incomes of five per cent, making, in effect, a flat tax of fifteen per cent on corporation income. That is in the Senate Bill. The House Bill was twelve and one-half per cent, raised by the Senate to fifteen per cent. The burden there, gentlemen, is not going to be reduced with respect to money payment. It is going to be simpler and more certain. I think it figures out that corporations who are making less than eleven per cent will pay more under the flat tax of fifteen per cent than under the excess profits tax. Those that are making over eleven per cent will pay less. The surtax maximums were reduced by the House from the present sixty-five per cent to thirty-two and one-half and returned by the Senate to fifty per cent. That question is still open, as of course, all these questions are still open, when this bill goes to conference, which is thought will take place perhaps at the end of next week. It is to be hoped that the maximum will be reduced at least to the percentage fixed by the House, or thirty-two and one-half per cent. The basis for determining gain or loss with reference to March 1st, and to profits and loss accruing before March 1st, has been changed to conform with the decisions of the Supreme Court. Those bases are quite complex and I will not undertake to discuss them in detail, but the principle is to tax only a real gain and to permit as deduction only a real loss from the actual price of the property. The principle is sound, but it does not go quite far enough. Your Committee believes that they should allow a loss accumulating after March 1, 1913. But, the provision tends to clarify the law and bring it into conformity with the decisions. There is a provision that exchanges of certain property for property of like kind, whether it has a readily realizable market value, or not shall not predicate a profit. There is a provision that where

securities are sold and identical securities are bought within a period of thirty days, no deductible loss shall be allowed. This provision was aimed at what was perhaps a real evil; namely, the attempt to reduce taxes by fictitious losses. The provision is rather arbitrary. It will be a question as to what is identical property, and perhaps judicial interpretation will nullify the effect of the provision. Perhaps it would have been better to have left it to the discretion of the Commissioner to permit the deduction in case of a bona fide transaction. A very interesting provision of the Bill, deals with the allocation of net losses. The tax payer is permitted, if he sustains a net loss in one year, to deduct it from the profit acquired in subsequent years. The provisions of the clause which determine how one is to establish a net loss are rather stringent on the tax payer, requiring him to include in his income profits made outside of his business without permitting him to deduct losses made outside of his business. They also require, in order to establish a net loss that you must include in your income the interest received on municipal bonds or tax free income. They do not permit the deduction from your income of the interest paid to carry those tax free bonds. This is a provision that may affect some of us. Of course, it is to be hoped that nobody is going to have a net loss, but it is conceivable that we might, and we have pointed out that injustice to the Senate Committee and have been assured that it would be taken care of, at least to the extent of permitting the investment banker to set off against the income received from tax free securities the amount of interest which he paid to carry the same. I see that I am consuming too much time.

*The President:* It is just a question of how much time you want to give to your discussion.

*Mr. Harris:* I am anxious for a full discussion. It is impossible to cover this great subject hastily and I am sure many inaccuracies will creep into what I say as they have into the report, and I just mention the capital gain provision and draw your attention to it as one of the important provisions of the bill. It is all covered by the report. Now gentlemen, it is the wish of the Committee that we have a discussion on taxation matters, and we have provided here as subjects for discussion, first, sales tax; second, taxation based on ability to pay; third, should there be any tax on business as such; and fourth, the relative burden borne by active

business with varying income as compared with that borne by secure income. I think the first two subjects are really germane and can be discussed together. I want to say this, in introducing the discussion on the sales tax that your Committee has always felt, since its appointment, that the question of a sales tax was one that affected the country at large and did not affect the investment banker particularly. I do not think that there is any well considered proposal which regards the selling of securities as a sale subject to this tax. A moment's consideration shows that the purchaser of securities is not at all analagous to the purchaser of commodities. If the tax is to be a consumption tax, which is the real purpose of the sales tax, then the borrower of the money is more analagous to the consumer of commodities than is the purchaser of securities. That, of course, is elemental. Your Committee has not taken a position on the sales tax, and this Association, so far as I am advised, has not done so. But, I believe the sales tax is around the corner and I think we should at least give it our serious consideration. Whether we want to endorse it or whether we want to approve it or disapprove it is another question. It is the only new thing in the entire tax situation. I am going to call on Mr. Robert R. Reed of New York, to speak to you on the Sales tax and then I hope we will have some discussion. [Applause.]

*The President:* Gentlemen, I may say that the remainder of time that has been allotted to the taxation Committee is twenty minutes, if we are going to finish our afternoon program. We have other discussions and other matters to be brought up. I know Mr. Reed is thoroughly familiar with his subject and that he can boil the thing down to a very few moments. Mr. Reed.

*Mr. Reed (Reed, Dougherty & Hoyt, New York):* If you will multiply that twenty minutes by twenty I might be able to give you some idea of this proposed sales tax. I will however try to give you the gist of it. In Washington today the sales tax is going to a vote on the floor of the Senate, and there are still a few Senators who believe that with the help of the business men and people of the country it may pass the Senate. Now, what is the necessity of it. It is necessary for revenue. It is necessary to relieve the situation that confronts the country today. There are several kinds of proposed sales tax and my own study, at least, and I think the experience of other countries with the sales tax, makes it very

important as to the kind of sales tax we have. The experience of the Philippines and of Canada, I think should cause us to remove all imaginary objections that we may have to it. In the form now considered in Washington it is very simple and there is a limitation of the main provisions to business which involves the sale of goods manufactured or purchased for sale, which automatically eliminates the farmers and confines it to manufactured products and other products after they pass from the producer. The objections to the sales tax have been very fully covered in the review of the objections actually presented at the hearing of the Finance Committee. We gathered all these together and answered them, I think, very satisfactorily, and copies of that can be furnished to anyone upon request. I think that is sufficient, Mr. Chairman.

*Mr. Harris:* Gentlemen, we would like very much to hear from anybody on the question of the sales tax.

*The President:* I might say, supplementing what Mr. Harris has just said, that I hope you will not hesitate to discuss this subject. In order to start the matter let me ask if any of the members present see a reason why this Association should advocate the adoption of a sales tax. There seems to be a peculiar vacuity of ideas on the subject. Let me put it the other way. Does anybody see any reason why the Association should not take a position in favor of the sales tax proposal?

*Mr. Hayden* (Hayden, Miller & Co., Cleveland): It would be hopeless to attempt at this time, in view of the very limited length of time we have to discuss the matter, to talk about the subject of the sales tax on its merits. The most we can hope is to get some notion of what the consensus of opinion here is on that general subject. Personally, I have been from the time the idea first came into my mind, heartily in favor of the sales tax and have done everything I could to forward that idea. I hoped, at one time, that most of the ways of raising the Federal revenue would be abandoned in favor of the sales tax. Some time ago I thought that was absolutely hopeless. Later, it seemed to me that it was even more hopeless, but in the last ten days I have had occasion to feel re-encouraged. I think that business men who favor it should and will make their feelings in regard to it understood in Washington. I feel that we can have a sales tax and take care of the general revenue requirements and not merely only the soldiers

bonus. I, personally, would be very glad to have the Association express itself. I can hear some members laugh already about merchants in securities saying "let us have a sales tax," but after all that means nothing; if we think it a sound policy we ought to say so. I hope, therefore, that we will take this matter up now and say that we favor, in principle, the sales tax. I thank you. [Applause.]

*Mr. Ross:* Mr. Hayden has unquestionably expressed the sentiment of this meeting and I think it is so unanimous that that is the reason you have not had more expression or discussion regarding it. I think the thing has been so seriously considered in every one of our offices that we are all heartily in agreement with the sales tax in principle.

*The President:* Is that true? Is the meeting unanimously in favor of the idea? [Cries of "Yes."]

*Mr. Martin:* I am not sure as to just how much money this brings in. Do I understand that the income tax remains? And the sales tax takes the place of the surtax? I think there is a great question as to how much money this sales tax brings in—do I understand the income tax remains and this sales tax takes the place of the surtax?

*Mr. Reed:* It is supplementary to the income tax to enable Congress to give relief at the point of greatest injustice. We don't know what the future has in store.

*Mr. Martin:* And the income tax will remain?

*Mr. Reed:* No; the graduated income tax will disappear.

*Mr. MacMichael* (Dexter Horton National Bank, Seattle): Our state legislature last winter, in looking around for ways and means of raising revenue and for reducing taxes on real estate, turned to the sales tax and we had quite a fight on our hands to defeat it. We did not want the sales tax applying to one state only because it is so absolutely destructive to business. We were able to kill it. Those who deal in securities proved that such a tax should not apply to the handling of securities. The producers of coal did not have much trouble in showing that it should not apply; manufacturers in other lines the same way; the timber interests were likewise successful in proving that it should not apply to timber; but, the interesting part of the whole discussion, which occupied several weeks, was this—that the retail merchants were not opposed to the sales tax if it were a national tax. As a

matter of fact they were quite in favor of it as a national tax but were actually opposed to it as applying only to the State of Washington. I agree with what the previous speakers have said; I think that most of us who have studied the subject are heartily in accord with the idea of the sales tax.

*The President:* Mr. Chairman of the Taxation Committee, if there is no objection—and there may be under the Constitution and By-Laws of the Association if anybody cares to make one—the Chair is going to ask for a show of hands, not with the view of taking any vote, or adopting any resolution in regard to the matter, but simply to get an expression of opinion of the members present. How many of you are in favor of any kind of a sales tax—please raise your hands. That is enough. How many are opposed. Gentlemen, I thank you; it seems to me to be fairly unanimous.

*Mr. Harris:* There were four subjects that we wished to have you consider briefly. The last two subjects we might take together.

Should there be any tax on business as such?

The relative burden borne by active business with varying income as compared with that borne by secure income.

Let me briefly outline what I mean by the last subjects. They are in a way germane. I believe, gentlemen, that the ideal system of taxation of incomes and profits, would be to make the individual the unit of taxation, and to have no tax on corporations or tax on business as such. Now the difficulty with that ideal is that the profits of corporations must be retained in surplus up to the point required by sound finance, and that point is always a debatable one. I do not think that anybody has advanced anything to solve that difficulty unless the sales tax solves it. I believe myself that it does. If we could put on a sales tax, a general turnover tax, as a substitute for any tax on business as such, and reduce our surtaxes to the point where they did not drive capital out of productive enterprise, it is my opinion that we would have then an ideal system of taxation to produce this tremendous revenue that we must produce, and it would have this additional advantage that everybody in this country would pay some of the taxes and you would have some pressure brought on Congress for economy.

The report I think clearly points out that the impact of these surtaxes falls very heavily on the active business man. We all know that the man with a large secure income after all does not pay the heavy surtaxes. He splits his income and he puts it into exempt securities, but a man who is in active business conducted as an individual or a co-partnership, and I think you would be surprised to know how large a part of the business of the country is done in that way, has no escape whatever from the imposition of these high surtaxes. In addition to that, his varying income often works out a tremendous injustice to him.

The example which illustrates this latter point which I have given in the report, I will repeat now. It may be exaggerated, but it tends to illustrate the point, that is, if a man in active business earns \$100,000 one year, \$5,000 the next year and makes a loss of \$60,000 the third, the net result for those three years is \$45,000 or an average profit of \$15,000 a year. His surtaxes alone, not counting his normal tax, at 32 per cent, amounts to approximately \$21,000. The man with a secure income of \$15,000 a year pays a surtax of \$340 a year. The injustice there is obvious. In other words, the man who is carrying the great burden of these high surtaxes is the active business man with the varying income, the very man who is taking the risk which makes this country prosperous, the man who should be encouraged, in my opinion, under our present system of taxation but who is meeting with the greatest discouragement. We proposed a 30 per cent credit on the income produced from an active trade, business or profession, which income is now as you know separately returned. That would give some measure of relief.

*Mr. Reed:* There is still a chance of getting that.

*Mr. Harris:* I want to say, Mr. Reed suggested it, there is still a chance of our getting that proposal through, that is, a 30 per cent credit on the earned income of a man actively engaged in business. The Committee has asked quite a number of the members of the Association to wire their Senators and Representatives in Congress. We have met with most encouraging results from those wires, and I would like to urge upon the members of the Association that you, each and all of you, try to get from your Senator or Representative, a consideration of that question, and that you do it now. If you can, wire him today.

Put it in your own language. Read the report of the committee in that regard. Send a wire to Congress. There is still a possibility and a very hopeful possibility that, through an amendment to be proposed in the Senate and taken up in conference, there may be some relief in that regard. If you can urge upon the merchants and the lawyers and professional men in your community to send similar telegrams, I think it will be helping to make a very constructive contribution to the whole subject at Washington. I wish to take time, if it is the sense of this meeting, just to read the concluding paragraph of the report.

That is a practical suggestion. It is a rather grandiloquent sentence at the end of the report, but the suggestion is to get after the Representative in Congress.

*The President:* Gentlemen, the committee just got under the wire in time according to the schedule. We have had a very interesting discussion of this important subject and the report has been very carefully prepared and presented to the Board of Governors and approved by them and a motion is now in order, for the adoption of the report on the floor of the Convention.

*Mr. Ross:* I move that we adopt it.

*The President:* Is the motion seconded?

(The motion was seconded, a vote was taken, the motion carried and the report was adopted.)

*The President:* Gentlemen, the next part of our program deals with the municipal securities committee, Mr. Thomas N. Dysart of William R. Compton Co., St. Louis. [Applause.]

*Mr. Dysart:* Before the President has had an opportunity to tell me that I haven't time to say anything, I want to let him know that I haven't anything to say because my report is printed. It contains simply a summary of the municipal bond laws passed by those legislatures that have been in session this year. I am not sure that it is entirely accurate, but we have tried to check it and correct all of the mistakes that we could. I think you will find statements with reference to the laws in the various states fairly accurate. There is just one thing that I want to call particular attention to and that is the section in the report which deals with the work done in the state of Louisiana. I have not attempted to give a complete history of the work, but they have adopted a new constitution in Louisiana and the sections which



have to do with the issuance of municipal bonds follow almost word for word the recommendations of the Municipal Securities Committee of the Association. I think the new constitution of Louisiana contains as good, if not the best municipal bond provisions as any state in the Union. [Applause.] I want you to read it. It is time well spent.

## REPORT OF MUNICIPAL SECURITIES COMMITTEE

In lieu of the usual report of the Municipal Securities Committee outlining its activities for the year—which report would necessarily be more or less a repetition of previous reports—we are submitting a compilation of the municipal bond laws adopted by many of the state legislatures that were in session this year.

It has been suggested frequently that we undertake the collection and publication, in one volume, of the municipal bond laws of all of the states. Such publication would undoubtedly be of great value, for the moment, to the members of the Association who deal in municipal bonds, but the idea is not practical because the book would be too voluminous and would become more or less obsolete almost before it could be completed. Our municipal bond laws are constantly changing; existing laws are being amended and new laws are adopted every time a legislature meets, and it would be impossible to keep the work revised to date.

Others have suggested that we endeavor to obtain the adoption of a uniform municipal bond law in all of the states. This is fine in theory, but impossible in fact. The constitutional provisions for issuing municipal bonds vary so in the different states that no uniform law can be framed that would meet these constitutional requirements. Many years must elapse—if in fact the time ever arrives—before there is sufficient uniformity in state constitutions to permit the enactment of uniform municipal bond laws.

Information concerning these laws has been received by the Committee from Association members throughout the country. The work, particularly in some cases, involved considerable time and trouble and the Committee, in acknowledging the sources of information, expresses its grateful appreciation of the assistance given by these members.

Where no mention is made of a particular state, it is either because its legislature was not in session this year, or because the Committee was unable to obtain copies of the laws that were passed.

### STATE OF MAINE

*Information furnished by Geo. P. Fogg of R. L. Day & Company, Boston,  
Massachusetts.*

There were no general laws passed by the 1921 session of the legislature of this state relating to the issue of municipal bonds. A few special acts were passed, which were as follows:

An Act to authorize the Water Commissioners of the City of Auburn to issue additional bonds not to exceed \$100,000.

An Act to authorize the Commissioners of Cumberland County to issue bonds to an amount not to exceed \$450,000.

An Act to authorize the County of York to issue bonds to provide funds to pay maturing temporary loans.

An Act to authorize the City of Lewiston to issue bonds to the amount of \$100,000 to refund maturing bonds, and to authorize additional bonds to the amount of \$250,000 to provide funds to pay temporary loans.

#### STATE OF NEW HAMPSHIRE

*Information furnished by Geo. P. Fogg of R. L. Day & Company, Boston, Massachusetts.*

No laws affecting municipal bonds were passed by the 1921 session of the Legislature of this State.

#### STATE OF VERMONT

*Information furnished by Geo. P. Fogg of R. L. Day & Company, Boston, Massachusetts.*

The only law passed by the 1921 Legislature of this State was Act No. 104 entitled "An Act to amend Section 4081 of the General Laws, as amended by Section 1 of No. 104 of the Acts of 1919 relating to the issuance of municipal bonds." The Act is short and is as follows:

Section 1. Section 4081 of the General Laws, as amended by Section 1 of No. 104 of the Acts of 1919, is hereby amended so as to read as follows:

Sec. 4081. All bonds issued under this chapter shall be of a denomination of not less than one hundred dollars nor more than one thousand dollars, and shall draw interest at a rate not to exceed 5% per annum, payable semi-annually; such bonds shall be payable serially, the first payment to be deferred not later than from one to five years after the issuance of the bonds and subsequent payments to be continued annually in substantially equal amounts so that the entire debt will be paid in not more than twenty years from the date of issue. In the case of bonds issued for the purchase or development of a municipal forest, the first payment may be deferred not more than thirty years from the date of issuance thereof, and thereafter such bonds shall be payable serially in substantially equal annual amounts so that the entire debt will be paid in not more than sixty years from the date of issue.

Approved March 9, 1921.

#### STATE OF MASSACHUSETTS

*Information furnished by Geo. P. Fogg of R. L. Day & Company, Boston, Massachusetts.*

No laws affecting municipal bonds were passed by the 1921 session of the Legislature of this State.

## STATE OF NEW YORK

*Information furnished by John C. Thompson of the New York Bar.*

Chapter 318, Laws 1921, Approved April 22, 1921. Amend Subdivision 1 of Section 480 of Chapter 21 of Laws 1919, as amended last by Chapter 162, Laws 1920. This Act gives right to trustees or boards of education, where serial tax has been voted, to issue bonds to an amount which will make total bonded indebtedness not over 15% of assessed value of real property (formerly, this law read "10%"). This new Act also applies to districts where aggregate valuation of real property is \$500,000 or over (formerly, this law read "\$1,000,000 or over"). A new clause is also added allowing issuance and sale of bonds in excess of above limitation if resolution authorizing the bonds "shall be adopted by a vote of two-thirds of the qualified electors present and voting on such resolution at the meeting called for such purpose."

Chapter 46, Laws 1921, Approved March 9th. Amends Section 319-b of Chapter 63, Laws 1919, as added by Chapter 233, Laws 1920, so as to permit issuance of not longer than sixteen months certificates of indebtedness or revenue bonds to provide funds to establish and maintain new police districts until adoption of next annual budget.

Chapter 358, Laws 1921, Approved April 30, 1921. Raises the limit on interest rate on state bonds for highways, barge canals and parks from  $4\frac{1}{2}\%$  to 5%.

Chapter 174 which authorizes cities of the first class having a population of one million or more, to make appropriations for educational purposes in addition to those contained in the annual budget for 1921, and to incur indebtedness and issue bonds or other obligations to meet such appropriations.

Chapter 456 which amends Section 129 of the Village Law of the State of New York so as to increase the maximum amount of interest on village bonds from five to six per cent per annum.

## STATE OF NEW JERSEY

*Information furnished by Robert R. Reed of the New York Bar.*

The Pierson General Bond Act has been amended by requiring temporary loans for capital expenditures to be authorized by ordinance subject to referendum, and by requiring not less than three per cent of outstanding temporary indebtedness incurred for completed improvements, no part of which has been assessed, to be included in the annual budget (ch. 120); the purpose being to prevent delay in beginning to liquidate the debt by carrying the temporary loan for a period of six years as formerly permitted; also by permitting counties to deduct from their gross indebtedness in determining their net debt and borrowing capacity, road bonds issued against the county's shares of the state motor vehicle fund allotment (ch. 164) and permitting other municipalities to deduct indebtedness incurred for an electric light plant which has been self-sustaining for five years (ch. 235).

One act was passed outlining the method by which the City of Atlanta might take advantage of a constitutional amendment passed in 1919, permitting the city to issue one to ten year serial street paving bonds without a vote of the people and without including such bonds in the city's debt limit. The act merely provides the mechanical process for carrying out the provisions of the constitutional amendment.

Two years ago, in revising the school code, the legislature passed a law restricting the tax levy for the payment of bonds to five mills. This law was amended last year, removing the tax limitation, but through a technical error in its enactment, the law was vetoed by the Governor. The legislature this year again amended the law, removing the limitation. There is now no limit to the amount of tax that may be levied to pay direct obligation bonds of school districts in Georgia.

## STATE OF FLORIDA

*Information furnished by the Chairman of the Municipal Securities Committee.*

Chapter 8413. An Act to amend Chapter 7862 of the Acts of 1919 relating to the Everglades Drainage District of the State of Florida. This Act fixes the annual tax per acre levied against lands in the district. The Act increases the amount of bonds authorized from \$6,000,000, as provided in the Act of 1919, to \$7,750,000. It limits the amount to be issued in any one year to \$1,500,000 and provides that all bonds authorized and issued in the future shall constitute an obligation of equal dignity with the bonds therein or theretofore authorized.

Chapter 8554. An Act to authorize the board of county commissioners in any county in the state where bonds have heretofore been voted for the construction of hard surface roads, to change the date of the serial maturities of said bonds, provided that the maturities as changed shall not exceed the final maturity of the issue as authorized by the election.

Chapter 8551. An Act to amend Section 1637 of the revised general statutes of Florida relating to the sale of county bonds. The Act provides that in case bonds are authorized at an election the county commissioners shall give notice that bids will be received at the County Clerk's office on or before the expiration of thirty days from the first publication of the notice. The notice shall specify the amount of bonds offered, the rate of interest and the maturities. When the rate of interest exceeds 5%, the bonds shall not be sold for less than ninety-five. When the rate is 5% or less, the bonds may be sold for not less than ninety.

Chapter 8552. An Act providing that all bonds, notes, coupons or other obligations signed by the duly authorized officers of any county, municipality or other political subdivision of the state, shall be valid and binding obligations, although before the date of delivery the persons signing such bonds, notes, coupons or other obligations, shall have ceased to be the officers of the issuing municipality. Section 2 validates all such bonds, notes, coupons or other obligations that have been delivered heretofore, notwithstanding any change in office subsequent to their execution and before their delivery.

Chapter 8548. An Act to amend Section 579 of the revised general statutes of Florida relating to elections in special tax school districts for the purpose of

issuing bonds for acquiring, building, enlarging, furnishing or otherwise improving, buildings or school grounds. If the district contains a city of 25,000 or more, the proposal to issue the bonds may be initiated by the Board of Public Instruction of the county or by the trustees of the school district, otherwise the proposal can only be initiated by a petition signed by not less than 25% of the duly qualified electors residing within the school district.

### STATE OF MISSISSIPPI

*Information furnished by J. M. Vardaman, Bank of Commerce & Trust Company, Memphis, Tennessee.*

There was no session of the Legislature in 1921. The principal municipal bond laws passed by the 1920 Legislature are as follows:

1. Senate Bill No. 234. An Act to require the payment of bonds and coupons promptly. This bill provides that all bonds and coupons issued by any county, municipality or district in the State of Mississippi shall be paid promptly at the place of payment, and in the event such payments are not made when due, the defaulting officer or officers are made liable on their official bonds, for any such default, provided sufficient funds are on hand to make the payments. This act has had a very desirable effect on Mississippi officials and has, to a large extent obviated the trouble that some of the members of the Association have had in the past in collecting bonds and coupons that were payable outside the state.

2. Senate Bill No. 200. An Act to provide for the issuance of bonds by counties and districts thereof.

3. Senate Bill No. 220. An Act to authorize the issuance of bonds by municipalities.

These are companion bills and provide general schemes for the issuance of bonds by counties, municipalities and districts in Mississippi. There are some very satisfactory provisions in these bills, but one of the undesirable features is that the debt limit was increased in each case to 15%.

The legislature also passed Senate Bill No. 146 which amends Chapter 176 of the Acts of 1914, by requiring all bonds issued under such act to begin maturing the first year instead of the tenth year, and it also provides that two or more road districts may consolidate.

### STATE OF TENNESSEE

*Information furnished by Hunter Jones of I. B. Tigrett & Company, Jackson, Tenn.*

The laws of the State of Tennessee provide for the issuance of bonds by counties, cities and incorporated towns, drainage and levee districts, school districts, and road improvement districts, and the authority under which bonds are issued is by both general and special act of the General Assembly. Below is a summary of all legislation adopted at the 1921 Legislature of the state, directly or indirectly effecting the issuance of bonds.

A more effective and speedier method for the collection of delinquent taxes—Chapter 115 amends Chapter 602, Acts of 1907, known as the General Assessment Act, and Chapter 37, Acts of 1911, entitled, "An Act to provide a more effective method for the collection of delinquent taxes," by requiring that after the first day of May each year, the County Trustee shall advertise that a list of all real estate upon which taxes remain due and unpaid will be turned over to the Comptroller of the Treasury, and that additional penalties will accrue if said taxes are not paid on or before the first day in June next. On the first Monday in June the trustees of the respective counties shall file with the Comptroller of the state a certified list of all delinquent real estate taxpayers, showing amount due, interest penalty, etc. Upon the filing of said list it shall be the duty of the comptroller, through the revenue agents, within six months from the filing of said lists, to give notice to the delinquent taxpayers that if said taxes are not paid by the first Monday of the following January, bills will be filed to enforce the liens for taxes assessed against said property, and that an additional penalty will accrue upon the filing of said bill.

In the event all taxes, interest and penalties are not paid on or before the first Monday in the following January, it shall be the duty of the comptroller, through the revenue agent, to file bills in Chancery Court for the purpose of enforcing the lien for taxes, and the court is authorized and empowered, if such relief is warranted by the law and the facts, to enforce the lien for taxes by sale of the property upon a credit of not less than six months and in bar of the equity of redemption; and the purchaser at such sale, after paying all the purchase money shall be entitled to a decree vesting the title in him absolutely against the owner and against all liens for taxes of any nature whatever. Any party to a suit brought under the provisions of this Act has the right to appeal to the Supreme Court, or have the cause reviewed by writ of error.

Tennessee bonds exempt from state, county and municipal taxes—Chapters 25, 86 and 92 provide that any and all bonds hereafter issued, without regard as to when authorized, by any and all counties, incorporated towns or cities and drainage districts, levee districts and drainage and levee districts in the state of Tennessee, shall not be taxed either by the state or by any county or municipality of the state, and a statement to that effect is required on the face of said bonds when issued.

Re-assessment of property for 1921, and biennially thereafter—Chapters 9 and 62 provide for a more just and equitable assessment of all property in Tennessee for taxation for state, county and municipal purposes, the re-assessment of property for 1921, and biennially thereafter, and the setting aside and vacating of all assessments for 1920 insofar as they relate to the assessment and collection of taxes for the year 1921, the purpose of the laws being to require re-assessment of all property of every kind in the state, assessed under the Revenue and Assessment Laws for Tennessee, as well as that escaping taxation or coming into existence since the assessment for 1920.

Extension of time for payment of state and county taxes applies only to year 1920—By reason of abnormal conditions a law was enacted at the last session of the General Assembly, extending the time for the payment of state and county taxes for the year 1920 only to May first without penalty, after which date the

same to become delinquent and subject to such penalties as are already imposed by law. With respect to delinquent land taxes for 1920, the law provides that county trustees shall sell said land for taxes delinquent thereon for the year 1920 only on the first Monday in September 1921, instead of the first Monday in June as provided for in Chapter 602, Public Acts 1907.

Machinery created for equitably administering the assessment and tax laws of the state—To the end that all assessments of property for taxable purposes shall be made relatively just and equal at the actual cash value of said property in compliance with the law, Chapter 113 creates the offices of State Tax Commission and a State Board of Equalization and defines the powers and duties of each. In general the duties of the tax commissioner are to exercise general supervision over the administration of the assessment and tax laws of the state; to confer with and advise county tax assessors, county boards of equalization and other county officials in the performance of their duties in administering the assessment and tax laws of the State.

Proposed amendment to constitution giving general assembly unrestricted power over taxation of personal property—An Act to concur in Senate Joint Resolution No. 74, Acts of 1919, proposing an amendment to the constitution of the state of Tennessee, under which proposed amendment the powers of the General Assembly over the subject matter of the taxation of personal property will be as complete and unrestricted as they would be if Section 23 of Article 2 of the constitution did not exist, provided, however, that any tax levied upon personal property must be uniform as to persons and property of the same class, and all exemptions from taxation shall be by general law, was adopted by a vote of two-thirds of all members elected to each House, and the amendment submitted to the people to be voted on at the general election to be held on the Tuesday after the first Monday in November 1922.

## ILLINOIS

*Information furnished by J. G. Search of Bolger, Mosser & Willaman,  
Chicago, Illinois.*

The only laws of importance on this subject passed by the last session of the Illinois Legislature are the following:

1. A Soldiers' Bonus Act was passed providing for the issue of \$55,000,000 of state bonds, bearing interest not exceeding 6% per annum and maturing serially within twenty years, subject to the approval of the proposition by the voters at the general election in November 1922.
2. The statute relating to road bonds of townships and road districts was amended by increasing the legal rate of interest from 5% to 6%.
3. The statute relating to special assessment bonds by cities and villages was amended by increasing the legal rate of interest from 5% to 6% per annum.
4. Laws were passed validating the reorganization of all township and community high school districts and the proceedings had for the issuing of bonds by such districts.



## STATE OF INDIANA

*Information furnished by the Chairman of the Municipal Securities Committee.*

The following laws were passed by the special session of the Legislature in 1921:

Chapter 5.—Legalizes bonds heretofore issued in good faith by cities, towns, counties and school districts where the notice of sale, or the notice of a hearing before the State Board of Tax Commissioners for authority to issue was not given in compliance with laws pertaining thereto.

Chapter 199.—Authorizes any city to acquire necessary sites to erect war memorials and issue bonds to pay for same; bonds to run not longer than ten years, beginning five years after date— $1/50$ th of the total issue must be paid each year and the remainder in ten years. Authority is given to refund at maturity for an additional five years. The maximum rate is 6%.

Chapter 160.—This authorizes counties in which are located cities of not less than 60,000 nor more than 68,000 according to the last Federal census, to construct coliseums, auditoriums or victory halls and issue bonds to pay for same. Bonds shall mature in not more than thirty years and shall be payable in equal semi-annual installments. The maximum rate is 6%, and bonds cannot be sold at less than par.

Chapter 153.—Amends Sections 32 and 40 of an Act entitled "An Act concerning county business" approved March 3, 1889. This law authorizes officials of counties to issue bonds not in excess of 2% of the taxable property as appears from the tax duplicate. The maximum rate is 6% and the maximum maturity twenty years. Bonds may be made payable serially. Notice of sale must be given for three weeks and the bonds sold for not less than par.

Chapter 87.—Authorizes counties to issue bonds not exceeding in amount \$100,000 in anticipation of the collection of taxes levied for county hospitals. These bonds have a fixed maturity of twenty years but are optional at any time after five years. The maximum rate is 6% and the bonds cannot be sold for less than par.

Chapter 262.—Authorizes county commissioners to issue bonds for highway improvement on behalf of the county itself, or of assessment districts or townships. The maximum rate is 6%. The bonds must mature in not more than thirty years nor less than ten years. The bonds cannot be sold for less than par. Notice of sale must be given by one publication in a local newspaper and one in an Indianapolis newspaper at least ten days prior to the date of sale. The amount of bonds to be issued is limited to 1% of the assessed valuation.

Chapter 264.—This seems to be a general act validating all bonds heretofore issued by counties, townships or other municipalities.

Chapter 96.—Authorizes cities, towns and other municipal corporations to purchase and acquire waterworks and issue bonds therefor, payable solely from the revenues and income from the plant. The rate is limited to 6% and the maturity to not exceeding fifty years. If bonds bear 6% they cannot be sold for less than par, but if they bear a lower rate, then they may be sold at such price as will make the money cost the city not more than 6%.

Chapter 177.—This authorizes school corporations to consolidate and issue bonds to acquire real estate and buildings.

Chapter 193.—Authorizes trustees of school cities and towns to issue bonds to fund or refund outstanding indebtedness. The rate is limited to  $5\frac{1}{4}\%$  and the maturity to not over fifteen years, or the bonds may mature serially from one to fifteen years. They must be sold at not less than par on two weeks' notice of sale.

Chapter 124.—Authorizes school townships to issue bonds to purchase grounds and erect buildings. The maximum rate is  $6\%$ ; the maximum maturity twenty years; the bonds cannot be sold at less than par.

## STATE OF OHIO

*Information furnished by Sidney Spitzer of Sidney Spitzer & Company, Toledo, Ohio*

The following laws relating to municipal bonds were passed by the 1921 session of the Ohio Legislature:

Act amending Section 3812 of the General Code by adding Section 3812-4 providing for the council of any city upon the recommendation of the Director of Public Service, or the council of a village, providing for the lighting of any street, alley, dock, wharf, pier, public road or place, or parts thereof, and for the levying and collecting of special assessments therefor. Proceedings same as for improvement of streets, except that notice of passage of resolution shall be published once a week for two consecutive weeks in two papers of opposite politics and in general circulation within the corporation. If no newspaper is published, notice shall be posted in five most public places for fifteen consecutive days. (Note—This section provides for the levying of assessments for the lighting of streets, alleys, etc).

Act amending Section 2715 of the General Code by adding after the last paragraph—except that in case the county commissioners find that there will be an excess of money in the treasury of any county which will be impossible to deposit under the limitation of \$1,000,000, such bank or banks or trust company shall be permitted to receive an amount not to exceed \$5,000,000. (Note—Previous to this amendment, no bank could have more than \$1,000,000 of county money on deposit at one time. The limit is raised to \$5,000,000 as above provided).

Act amending Section 3410-13 of the General Code—the last paragraph of said section is changed to read: the township trustees shall, prior to the time such bonds are issued, provide for levying and collecting annually by taxation an amount sufficient to pay interest thereon and to create a sinking fund for their redemption at maturity, and shall annually levy a sufficient tax for such purpose irrespective of any limitation and this provision shall apply in any case where such bonds have been authorized by vote of the electors as provided in this Act. (Note—The above applies to memorial bonds which may be issued not in excess of \$100,000. The first above phrase formerly read: at the time said bonds are authorized to be issued. The last phrase is an addition to the section and provides an unlimited tax for the payment of interest and sinking fund and also provides that this bonded indebtedness does not figure into the bond limit).

New Act authorizing any school district of the State lying adjacent to the school district of another state to form a joint school district upon approval of the Board of Education of this State.

Act amending Section 7604 of the General Code by adding: except that in case the Board of Education shall find that it will be for the best interest of any school district, such bank or banks shall be permitted to receive an amount in no event to exceed \$5,000,000. (Note—Old law provided no deposit in excess of the amount of paid in capital of the bank, and in no event more than \$1,000,000. The limit by this amendment is raised to \$5,000,000).

Section 7630 of the General Code amended to read: In no case shall a Board of Education issue bonds under the provisions of the last preceding section in a greater amount than shall be provided for and paid for by the tax levy authorized by law and subject to limitation of the combined maximum rates for taxation in force at date of issue. The board shall provide subject to said limitation for the levy of a sufficient tax for interest and sinking fund or retirement purposes in the resolution authorizing the issue. The amount of bonds outstanding at any time shall not exceed  $1\frac{1}{2}\%$  of the tax duplicate of the district. Bonds heretofore issued or authorized to be issued by any board of education under authority of the next preceding section for a lawful purpose which have been and shall be sold at not less than par and accrued interest and the proceeds thereof have been and shall be paid into the treasury, shall be legal, valid and binding obligations of the school district and of the board of education. (Note—The old section provided for the payment of bonds within forty years on the basis of the tax valuation at the time of the issue. The new section as above written does not specify the time. The next preceding section referred to above applies to school bonds issued by a board of education without being submitted to the voters).

New Act authorizing cities, villages or counties to issue bonds for playgrounds, playfields, gymnasiums, swimming pools, public baths or indoor recreation centers, and for the equipment thereof. No specific percentage of tax valuation or amount of bonds authorized named in the bill. Bonds to be general bonds of the issuing municipality governed by general laws.

Section 4687 of the General Code amended by adding: the legal title to school property for school purposes in a newly created village school district shall be vested in the board of education of the newly created school district. Provided, however, if there be any indebtedness on the school property located within the newly created school district, the board of education of the newly created village school district shall assume such indebtedness and shall levy a tax annually sufficient to pay such indebtedness and shall pay to the board of education of the district or districts from which it acquired the school property, the amount of money collected from such levy as it becomes due. (Note—The above also applies to territory annexed to a city or village as well as to territory which is incorporated in a newly created village).

Sections 8870 and Section 8890 of the General Code amended, allowing counties and other municipal corporations to issue 6% bonds for the payment of its portion of grade crossing elimination—the former rate was 5%.

New Act specifying as follows: All counties in which there has or will be hereafter created a conservancy district under the Conservancy Act of Ohio, are authorized to remove, alter, repair, replace and construct new bridges over rivers, creeks or water courses that have been or will be removed therefrom in the process of improvement under said Conservancy Act. The commissioners may borrow

not in excess of \$250,000 for said purpose, issue bonds without submitting to the vote of the people. The bonds to mature in not exceeding ten years, bear interest at not exceeding 6%, and no greater amount shall be due in any one year than 7/10 of 1% of the total valuation of property in the county as assessed in 1920. Bonds to be advertised and sold in the usual manner and commissioners may levy a tax not in excess of 7/10 of 1 mill to pay interest and sinking fund. This tax not to be counted in the tax limitation.

Section 3939 of the General Code amended by adding Section 3939-2. When a municipal corporation has within or bordering on its boundaries, property belonging to the state of Ohio, the council of said municipal corporation by an affirmative vote of not less than two-thirds of the members elected or appointed thereto, by resolution or ordinance may issue and sell bonds in such amounts and denominations, for such a period of time and at such a rate of interest, not exceeding 6%, and in the manner required by law, provide for the protection of said property belonging to the state of Ohio in the way of building, erecting or by the extension of the waterworks system of said municipal corporation to, into, or through said property belonging to the state. (Note—Provides authority for a municipality to issue bonds for water works system to protect state property within its boundaries).

New Act to permit municipal corporations to issue bonds for deficiencies in the year 1921—bonds to run ten years, interest not to exceed 6%, semi-annual, amount of bonds not to be counted in the bond limitation.

Section 2976-25 of the General Code amended by adding a clause permitting the treasurer of a county to record and authenticate county bonds when the secretary of the sinking fund is unable to act by reason of sickness or absence and to sign as acting secretary.

Section 2438-1 of the General Code amended by adding a section which provides that when the signature of the county auditor is necessary on bonds and he cannot act, the Court of Common Pleas when petitioned by the county commissioners, shall appoint a deputy to act, and in the absence of a deputy, some other suitable person. In such case the county auditor's name shall be signed and the name of the party signing shall be placed under the county auditor's name, preceded by the words "signed by" and followed by the words "pursuant to order of the Common Pleas Court of said county."

New Act to authorize boards of education of rural school districts and school districts to fund deficiencies, issue bonds and to levy taxes for such purposes. It is provided that the above can issue bonds for deficiencies outstanding on March 1st and to become due before July 1, 1921. Bonds to run not exceeding ten years with 6% interest, bonds so issued not included in tax limitation not subject to bond indebtedness limitation.

Section 6496 of the General Code amended by removing the time limit of four months for selling inter-county ditch bonds by private sale, and authorizing the commissioners to give bonds to contractors in payment for work and material. inter-county ditch bonds made full and general county obligations.

Section 1223 of the General Code amended by adding: the making of special assessments hereinbefore referred to shall not be a condition precedent to the issuing of bonds under the provision of this section, and such special assessments

may be made either before bonds are issued, under the provisions of this section, or after the issuance of such bonds.

Section 6929 of the General Code, also amended the same as the preceding. (Note—the above section applies to bonds issued by county commissioners both on behalf of the county and at the request of the townships that have special road districts. The amendment allows special assessments to be made after the bonds are issued as well as before. The above act also legalizes sale of all bonds issued heretofore and sold at par and interest.)

House Bill No. 33 providing for a complete revision of many sections of the general code regarding the issuance of bonds, the manner in which different classes of bonds shall mature, the classification of the bonds and providing for serial maturities and the method of procedure in issuing same. This is perhaps the most important of all the laws passed by this legislature relating to the issue of municipal bonds. A copy of this law should be secured and carefully read by all members of the Association who are interested in Ohio municipals.

#### STATE OF MICHIGAN

*Information furnished by J. W. Walling of Walling Lorchon & Company, Detroit, Michigan.*

The only substantial change made in the municipal bond laws of this state by the last legislature was a bill relating to school districts which increased the debt limit from 10% to 15%, and the maximum maturity from fifteen years to thirty years. There were also a number of minor amendments to the local road district law and some special legislation to help out certain local situations.

The general bill entitled "A bill to authorize and regulate the issue of bonds by counties, townships, etc." failed of passage as it did not come in for final reading until just before the session adjourned. The attempt to amend the Secured Debts Act was also defeated.

#### STATE OF WISCONSIN

*Information furnished by J. G. Search of Bolger, Mosser & Willaman, Chicago, Illinois.*

Chapter 242 of the Session Laws of 1921 revises and consolidates the laws relating to the organization and powers of cities, and repeals all existing special charters for cities, except the City of Milwaukee, which is allowed to retain its special charter. Chapter 576 revises and consolidates the laws relating to municipal borrowing and municipal bonds and repeals all existing laws on this subject. This chapter is now the sole authority for the issuing of general obligation bonds by counties, cities, villages, towns, school districts and all other municipalities, except the City of Milwaukee, which latter city may issue bonds either under this chapter or under its special charter. This chapter specifies the purposes for which bonds may be issued by each class of municipality, and details the procedure required to be taken, provides for the form, execution and manner of negotiation of the bonds. We do not find in the statute any limitation as to the rate of interest the bonds may bear, the only provision on this point being that the rate of interest

shall be specified in the initial resolution authorizing the bonds, which resolution is required to be published before the bonds are issued. It is provided that the bonds shall be sold at not less than par by the officers who execute the bonds, together with the municipal treasurer. There is no requirement as to public advertisement of the sale. A method is also provided by which any municipal bond may be registered in the name of the owner.

In this connection, it should be noted that the said Chapter 576 excepts from its provisions highway bonds of counties and towns issued under Sections 1317 M-12 to 1317 M-15 of the statutes. Therefore, county and town highway bonds will continue to be issued under the general highway law, which law limits the rate of interest to 5% per annum. It is provided, however, by Chapter 288 of the Laws of 1921 that until July 1, 1923, the county board of any county may issue highway bonds under Section 1317 M-12, bearing interest at a rate not exceeding 6% per annum. Chapter 3 of the Laws of 1921 authorizes the sale at less than par of county highway bonds authorized prior to January 1, 1921, and not yet sold.

### STATE OF MINNESOTA

*Information furnished by L. E. Wakefield of Wells-Dickey Company,  
Minneapolis, Minnesota.*

**State bond issues**—At the November 1920 General State election, an amendment to the state constitution was adopted known as Article 16 creating a state trunk highway system of approximately 6500 miles to be constructed and maintained by the state through increased taxes on all motor vehicles levied in lieu of all other taxes on same and through the issuance of state bonds. The legislature was authorized to issue and sell general state bonds not exceeding in the aggregate \$10,000,000 in any one year and not exceeding bonds issued and unpaid of \$75,000,000 at any one time, such bonds to bear not to exceed 5% interest, maturing not exceeding twenty years, to be sold at not less than par. Public sentiment at present is apparently against the issuance of any state bonds and in favor of the financing of the system through the vehicle tax alone. None of these state bonds were authorized to be sold by the 1921 legislature.

This same amendment provided that the legislature might "reimburse any county for the money expended by it subsequent to February 1, 1919, in permanently improving any road" described in the amendment. Chapter 522 takes care of this reimbursement and provides that "the State of Minnesota hereby agrees to pay out of the trunk highway fund and only out of that fund, the principal of such bonds at maturity," bonds so referred to being bonds heretofore issued by the counties for that purpose, together with certain county bonds to be hereafter issued under certain restrictions. The state is to also reimburse interest to the extent of 5%. Section 2 (b) of this act provides that where the county has heretofore expended money derived from taxes or temporarily transferred from other funds for such permanent improvements "it shall be the duty of the county board of any county desiring such reimbursement to issue bonds of the county in an amount equal to the amount thus expended including interest thereon." Such bonds shall mature in not less than ten nor more than twenty years, bear not exceed-

ing 6% interest and be sold at advertised sale. Before such bonds shall be issued and sold the Commissioner of Highways shall certify that said bonds are such as will be paid by the state at their maturity out of the trunk highway fund. This is probably the most important bond enactment of the entire session, as a great many counties will seek reimbursement in this way through sale of bonds. While the promise of the state to pay the bonds at maturity is limited to the trunk highway fund alone, such promise becomes a charge upon that fund which must be met ahead of the construction program so that the state will have to set aside a sinking fund out of the vehicle licenses from year to year to take care of this obligation or else will ultimately have to issue state bonds to redeem these promises. Practically \$25,000,000 of construction work was done during 1919 and 1920 which the state will ultimately be required to finance in this way.

The legislature also authorized the sale at less than par of approximately \$5,000,000 unsold Soldiers' Bonus Certificates of Indebtedness. These have already been sold and there will be no further issues offered to the public.

A law was passed, Chapter 528, submitting a constitutional amendment to be voted on in 1923 for the creation of a state rural credits system, similar to that of South Dakota.

County bonds—Chapter 522 referred to above authorizing the issuance of "Trunk Highway Reimbursement Bonds" was the most important enactment.

Chapter 155 provides that where the removal of trees and stumps from land will contribute toward forest fire prevention and the general welfare of the county it may be financed by the issuance of county bonds under procedure similar to the Minnesota Drainage Act. The purposes of this Act are untried and probably no bonds will be issued under it until its validity has been passed upon by the Supreme Court.

Chapters 325 and 326 relate to drainage and flood control, the creation of districts for that purpose and the issuance of county bonds therefor, the county to be reimbursed through special assessments on the general plan of Minnesota county ditch law.

Cities—(Cities of the First Class) Due to the fact that the City of Minneapolis adopted a home rule charter which became effective in December 1920, the volume of bond legislation for Minneapolis was substantially reduced. To adjust some of the provisions of the new Minneapolis charter two important acts were passed—Chapter 120 amending Sections 1345 and 1346, General Statutes 1913, which limit the scope of home rule cities, particularly in the matter of the incurring of bonded debt. The principal amendment was to bring the general law as to bonded debt into harmony with the new Minneapolis charter permitting Minneapolis to incur indebtedness without popular vote upon joint vote of the City Council and the Board of Estimate and Taxation, up to a net indebtedness of 10% of the assessed valuation, including moneys and credits. Chapter 162 validates all charters adopted with provisions not inconsistent with the law as so amended. Chapter 226 permits the sale of street and park improvement bonds at less than par. Two sets of bonds have been issued under the new charter as validated, by these laws, which procedure has been approved by two of the most prominent eastern attorneys, so that the provisions of the new Minneapolis charter as to debt incurring are considered well established.

(Cities of the Fourth Class—population not exceeding 10,000) and Villages. Chapter 65, Laws 1919 provided procedure for paving improvements and sale of city and village certificates of indebtedness to finance same. This act was reviewed twice by the Supreme Court, the first case holding that it did not apply to home rule charter cities and the second that as to all other cities and villages it was valid, the certificates were general obligations and no election was required. Chapter 419, Laws 1921, specifically makes the act applicable to home rule cities of the Fourth Class and Chapters 18, 50 and 456 validate proceedings, assessments and certificates heretofore issued under Chapter 65, Laws 1919, by all cities of the fourth class, including home rule cities and also villages.

Chapter 108 amends prior laws so that not only cities of the fourth class but villages may issue bonds to purchase heating plants already in operation.

Funding and Refunding bonds—Chapter 209 amends Sections 1854 and 1855, General Statutes 1913, so as to remove any doubt as to the right of all municipalities to issue bonds without an election to fund floating indebtedness and providing that such funding bonds shall be payable in three to fifteen year installments. Chapters 184 and 185 relate to the validation of bonds issued to refund floating indebtedness and make the determination of the governing body conclusive evidence as to the validity of the debts refunded.

Chapter 417 is an act to limit the annual levy of taxes in all villages, cities and school districts, designed particularly to curb extravagance on the part of the iron range municipalities. City and village taxes are limited to \$100 per capita and school districts to \$60 per capita, plus an additional amount necessary to retire principal and interest on indebtedness heretofore incurred.

Chapter 278—A Street Railway Control Bill was passed providing that street railways may surrender their existing franchises and accept indeterminate permits, that extensions and service shall be controlled by the city councils but that rates of fare shall be fixed by the State Railroad and Warehouse Commission which will allow a reasonable rate on the fair value of the operating property.

Chapter 426 amends the State Securities Commission Act (Blue Sky Act) so that a commission of three men, who will devote their entire time to the work, has been named in place of the three state officers who were previously ex-officio members. No other important change was made in the Act.

## STATE OF IOWA

*Information furnished by H. M. Rogers of Geo. M. Bechtel & Co., Davenport, Iowa*

The principal laws passed by the 1921 session of the Iowa legislature relating to the issue of municipal bonds were as follows:

Chapter 126. Securities and Investments. An Act to repeal Section 364 of the supplement to the Code, 1913 (C. C. 8437), and to enact a substitute therefor and to authorize investments of funds, including those to be made by executors, administrators, trustees and guardians, where such investments are to be made and no mode of investment is pointed out by statute.

Investments—authorized securities. Section 364 of the supplement to the Code, 1913 (C. C. 8437), is hereby repealed and the following enacted in lieu thereof:



"Where investments of funds are to be made, including those to be made by executors, administrators, trustees and guardians, and no mode of investment is pointed out by statute, they may, under order of court, be made in the bonds of this state, or of those of the United States, or federal farm loan bonds issued under the provisions of the Act of Congress approved July 17, 1916, or in bond or mortgage upon real property of the clear unincumbered value of twice the investment, or in bonds issued by or under the direction of cities, towns, counties, school or drainage districts of this State."

**Chapter 255. Cities and Towns.** An act to amend Section 825, supplement to the Code, 1913, (C. C. Sec. 3889) relating to special assessments.

**Assessments—installments increased.** That Section 825, supplement to the Code, 1913 (C. C. Section 3889) be amended by striking out the word "seven" after the word "in" in line seventeen of said section and inserting in lieu thereof the word "ten."

**Chapter 187. Cities and Towns.** An act to amend Section 894, supplemental supplement to the Code, 1915, (compiled Code, Sec. 4038), and Section 1989-a38 supplement to the Code, 1913, as amended by Section 1, of Chapter 28, Acts of the 37th General Assembly, (compiled Code, Sec. 4886), in regard to levy of tax by cities and towns to pay special assessments for street improvements.

**Taxation.** That Section 894, supplemental supplement to the Code, 1915, (compiled Code, Sec. 4038), be and the same is hereby amended by inserting after paragraph II thereof, the following:

"II-a. **Drainage Tax.** A tax in such sum or amount as may be necessary to pay any special assessment, with interest, or any installment of any special assessment, with interest, levied against any street, alley, highway, public way or park of any incorporated town or city, or city acting under a special charter, levied under the provisions of Section 1989-a38, supplement to the Code, 1913, as amended by Section 1 of Chapter 28, Acts of the 37th General Assembly (compiled Code, Sec. 4886)."

**Applicability to Towns.** That Section 894, supplemental supplement to the Code, 1913 (compiled Code, Sec. 4038), be and the same is hereby amended in paragraph 12 thereof by adding after the word "eleven" in the second line of said paragraph, the words "and eleven-a."

**Assessment Against Streets—Payment.** That Section 1989-a38, supplement to the Code, 1913, as amended by Section 1 of Chapter 28 of the 37th General Assembly, (compiled Code, Sec. 4886), be and the same is hereby amended by striking out the period after the last word of that section and substituting a comma in lieu therefor and adding the following words: "or said assessment may be paid by tax levy as provided by Section 894, supplemental supplement to the Code, 1915 (compiled Code, Sec. 4038), paragraph eleven-a."

**Chapter 179. Cities and Towns.** An act to amend Section 894, supplemental supplement to the Code, 1915 (C. C. 4038), relating to taxation in cities and towns, and to provide for a tax levy to pay sewer bonds issued by cities and towns.

**Sewer Bond Tax.** That Section 894, supplemental supplement to the Code, 1915, (C. C. 4038), be and the same is hereby amended by adding thereto the following:

(18) "A tax as authorized in subdivision 9 of this Section, to be levied in the proportions therein set forth and to be used exclusively in the payment of the principal of bonds and the interest thereon issued for the construction of sewers, which tax shall not be levied on property lying wholly without the limits of the benefits of such sewers, which limits shall be fixed by the council each year before making the levy."

**Chapter 43. Municipal Bonds.** An act authorizing and empowering cities and towns to sell and dispose of municipal bonds by popular subscription.

**Sale of bonds by popular subscription.** Cities and towns, including special charter cities, cities under the commission form of government and under the city manager plan of government, may sell such bonds as they are by law authorized to issue, to the citizens of such municipality by popular subscription. The officers of such cities or towns who are charged with the duty of selling such bonds may publish notice of such sale for such length of time and in such manner as they may deem best to effect the purpose of this act, and may receive bids from the citizens of such municipality, or others, for the entire amount of such issue, or any part thereof, excepting that bonds may not be issued in smaller denominations than \$100 and such officers may award bonds to any one or more of such bidders in accordance with what, in the judgment of such officers, is for the best interest of the municipality; provided that in no case shall such bonds be sold for less than their par value and accrued interest.

**Chapter 125. Parks.** An act to amend Chapter 312, Laws of the 38th General Assembly (C. C. Secs. 3668 and 3671), relating to park commissioners and board of public works, providing for additional funds for parks, with provisions for borrowing money and issuing bonds therefor, and for acquisitions of real estate and the permanent improvement thereof, and legalizing the issuance of certain certificates or bonds issued thereunder.

**Purposes.** That Section 1 of Chapter 312, Acts of the 38th General Assembly (C. C. Sec. 3668), be and the same is hereby amended by inserting after the word "improving" in line 20 of said Section, the words "by the construction of buildings in public parks."

**Section 2. Legalizes certain certificates and bonds.**

**Chapter 49. Purchase and Construction of waterworks.** Amends Sections 742, 742-a1, 744, 745 and 747-b, supplement to the Code, 1913 (C. C. Sections 3981, 3982, 3984, 3985 and 3988) which included cities of the first class, to include also cities of the second class having a population of over 10,000.

**Chapter 82. Waterworks.** An act amending Chapter 288, Laws of the 38th General Assembly (C. C. Secs. 3997, 4005, 4008), conferring additional powers on cities having a population of 100,000 inhabitants or over, including cities acting under the commission plan of government, relating to waterworks. Maximum interest rate on bonds is changed from 5% to 6%. Requires Board of Waterworks Trustees to make financial report once a year instead of twice a year.

**Chapter 21. City Halls.** Amends Section 1 of Chapter 182 of the 37th General Assembly (C. C. 3740) relating to the erection of city halls and the issuance of bonds therefor, by the insertion of the words underlined below. The section as amended reads: City Hall. Cities and towns, including cities under commission plan, shall have power to erect a city or town hall and to purchase the ground

therefor. Such building may be erected and used for general community and municipal purposes, including assembly hall, auditorium, public hall, armory, council chamber and offices, fire and police stations, *waterworks* or for any one or more of such purposes, and when erected shall be under such regulations as to use and compensation for such use when used for other than municipal purposes as the council may from time to time direct.

Chapter 41. Limitation on municipal indebtedness. Amends Chapter 14-D, Title V S. S. to Code 1915 C. C. chapter 40, Title XIII which relates to government of cities and incorporated towns by a council and manager, by addition of the following: Section 1056-b-27. In any city adopting the form of government provided for in this chapter, whose indebtedness, prior to the time the change in government was made, was limited to five per centum of the actual value of the taxable property therein, and whose actual indebtedness, at the date of such change, exceeds one and one-quarter ( $1\frac{1}{4}$ ) per centum of the actual value of the taxable property of said city, the limit of indebtedness of such city shall be determined by adding to the indebtedness limit, under the general laws for cities, the actual value, as determined by the city council, of municipally owned and operated utilities, and it shall be limited to such an amount; provided, however, that the amount thus arrived at shall in no event exceed five per centum of the actual value of the taxable property in said city, as shown by the state and county tax list.

Chapter 6. Interest on School Bonds. Amends Section 2812-e S. S. of Code (Sec. 2661 C. C.) relating to school funding, refunding and building bonds. Section 1 of the new act reads: Interest rate. That the law as it appears in Section 2812-e supplemental supplement to the Code, and as it appears in Section 2661 of the compiled Code, be and the same is hereby amended by adding the following to said section: "Provided that as to such school bonds heretofore voted, and not yet issued, school funding or refunding bonds and as to such school bonds as may be voted hereafter and prior to January 1, 1923, same may bear rate of interest not exceeding six per centum per annum. Provided further that all such bonds, bearing a rate of interest exceeding five per centum per annum shall contain a provision reserving to the corporation issuing such bonds, the option to pay such bonds at any time on or after five years from date of issue."

Chapter 170. Public Bonds. An Act to provide for competitive bids in the sale of all municipal bonds where the amount involved exceeds the sum of \$25,000.

Sale—Advertisement. When any state, county, township, municipal, drainage, school, road, park or other public bonds are issued and offered for sale in the sum of \$25,000 or more, the official or officials in charge of such bond issue shall by advertisement, published for two or more successive weeks in at least one official newspaper of the county, and in at least one newspaper of general circulation in the state, give notice of the time and place of sale of said bonds, the amount thereof to be offered for sale, and any further information which may be deemed pertinent.

Sealed bids—record—open bids—record. Sealed bids may be received at any time prior to calling for open bids. At said time and place, the said officials shall open and publicly announce all sealed bids received and make a record of same in their minutes. After the sealed bids are announced, the official or officials

shall call for open bids and shall make record in the minutes of the best open bid received.

**Rejection of bids—private sale.** Any or all bids may be rejected, and the sale may be advertised anew, in the same manner, or the bonds may thereafter be sold at private sale, provided that no bonds shall be disposed of for less than par value and accrued interest.

**Publication clause.** This act being deemed of immediate importance shall be in full force and effect after its passage and publication in the Des Moines Register and the Des Moines Capitol, newspapers published at Des Moines, Iowa.

**Chapter 228. Legalization Acts.** An act to prescribe the conditions under which the proceedings of boards of supervisors, school directors and city and town councils, and bonds and warrants issued by such official bodies, may be legalized.

**Notice of purpose to legalize.** No bill which seeks to legalize the official proceedings of any board of supervisors, board of school directors, or city or town council, or which seeks to legalize any warrant or bond issued by any of said official bodies, shall be placed on passage in either House or Senate until such bill as introduced, shall have been published in full in some newspapers published within the territorial limits of the public corporation whose proceedings, warrants or bonds are proposed to be legalized, nor until proof of such publication shall have been printed in the House or Senate journal.

**Section 2. Publication when newspaper in territorial limits.** In case no newspaper is published within such territorial limits, the publication required by this act shall be made in one newspaper of general circulation published within the county.

**Section 3. Caption.** The publication required by this act shall be made under the following caption or heading, to-wit:

"Proposed bill for the legalization of the proceedings of (name of official body)."  
If the proposed bill be for the legalization of the bonds or warrants of the public corporation, the caption shall be modified accordingly.

**Section 4. Cost of publication.** If the bill be introduced at the instance of the public body whose proceeding, bonds or warrants are sought to be legalized, the cost of the aforesaid publication may be paid from the general fund of the public corporation.

**Section 5. Amendment—effect.** The amendment of the proposed bill after its publication as aforesaid shall not affect its legality, provided the subject matter of the bill is not substantially changed.

## STATE OF MISSOURI

### *Information furnished by the Chairman of the Municipal Securities Committee*

At the general election in November, 1920, the following constitutional amendments were adopted:

Section 12, Article 10, was amended to authorize cities of 75,000 or more to acquire public utilities and issue bonds payable solely against the revenues of the utilities, such bonds not to be included in the city's general debt limit.

Article 4 of the Constitution was amended to provide for the issue by the state of \$60,000,000 bonds for road purposes. The amendment limited the rate of interest to 5% and the maturity to not exceeding thirty years. Authority was given for payment of the bonds by a direct annual tax on all property of the state. It also provided that all motor vehicle registration fees and license fees collected by the state should be segregated and used to pay the principal and interest of the bonds. The legislature was authorized to enact such laws as might be necessary to carry this amendment into effect.

Section 12a, Article 10, was amended to permit cities of 30,000 or less to become indebted upon the assent of two-thirds of the voters, to an amount not exceeding an additional 10% of the assessed value of property, for the purpose of purchasing or constructing waterworks, ice plants, electric or other light plants.

Section 44, Article 4, of the Constitution was amended to authorize the state to issue \$1,000,000 Soldiers' Settlement Fund bonds. The amendment provides that bonds shall be payable thirteen years from date and optional after eight years, bear interest at not to exceed 4½%, and shall not be sold for less than par. This amendment is supposed to be self enforcing and to require no legislative action. Nothing has been done by the state with respect to the issue of these bonds due perhaps to the low rate of interest and the limitation that they may not be sold at less than par, and to the further fact that disbursement of these funds will probably be coupled with the disbursement of the money under the Soldiers' Bonus Bill.

At a special election held August 2, 1921, Article 4 of the Constitution was further amended to provide for the issue by the state of \$15,000,000 Soldiers' Bonus bonds. The maximum rate of interest is 5%, but the other details of the issue were left to the legislature. The constitutional amendment authorizing the \$15,000,000 Soldiers' Bonus bonds was not adopted until after the special session of the legislature adjourned and it will be necessary therefore either to call another special session to enact laws before these bonds can be issued, or to wait until after the regular session in January, 1923. The Governor is considering the matter and will most likely call a special session this fall. The Legislative Committee of our Local Group has been requested to co-operate with the state officials in the preparation of this law. It will probably be several months before either the State Road bonds or Soldiers' Bonus bonds can be issued.

At the regular session of the legislature which convened in January, 1921, the following municipal bond laws were passed:

Senate Bill No. 16. This was an act amending the laws relating to the issue of courthouse, jail and county hospital bonds. The former statute provided only for the issue of bonds to build courthouses and the act as amended provides for building, repairing or rebuilding.

Senate Bill No. 193. This was an act amending the law authorizing counties, cities, towns, villages and school districts to fund their indebtedness, and the amendment increased the maximum rate of interest from 5% to 6%.

Senate Bill No. 339. This was an act authorizing cities of 75,000 or more to issue general obligation bonds to an amount not exceeding 10% of the assessed valuation for the purpose of acquiring public utilities and also authorizing public

utilities bonds payable by a lien on the income from the properties, and providing that such bonds shall not be included in determining the city's legal debt limit.

Senate Bill No. 340. This was an act providing that all bonds registered by the State Auditor of Missouri shall be legal investments for insurance companies, administrators, executors, etc., and providing that such bonds shall be accepted as security for state deposits.

Senate Bill No. 454. This was an act increasing the maximum rate of interest on bonds issued by counties, cities, towns, villages, school districts and other political subdivisions, to 6% and authorizing the sale of such bonds at not less than 95% of their par value.

At a special session of the legislature held in June, 1921, a law was enacted putting into effect the provisions of the constitutional amendment authorizing the issue of \$60,000,000 road bonds. The act provides for the issue of 5% bonds, due serially from one to twenty years, and limits the amount to be sold in any one year to \$10,000,000. Unfortunately, a provision was inserted in the law at the last moment providing that no bonds can be sold before March 1, 1923, thereby holding up the state's road building program. The Governor is considering calling another special election to pass legislation authorizing the issue of the \$15,000,000 Soldiers' Bonus bonds, and, in the event he does, he will probably include in the call authority for amending the road bond law to permit an earlier sale of these bonds.

## STATE OF ARKANSAS

### *Information furnished by the Chairman of the Municipal Securities Committee*

A large majority of the bonds issued in this state are authorized by special acts. A number of such acts were passed by the 1921 legislature, but not so many as have been passed in previous years. This was due largely to a general desire on the part of the taxpayers of the state to curtail the road building program until general conditions improve. Meanwhile, several eastern newspapers published articles criticising the road construction program in this state, and, as a result of these articles, the Executive Committee of the Mississippi Valley Group of the Investment Bankers Association of America conducted an investigation and published a comprehensive report. The introductory part of this report is as follows:

### ARKANSAS IMPROVEMENT DISTRICT BONDS

As many of the members of the Mississippi Valley Group of the Investment Bankers Association of America were instrumental in the marketing of improvement district bonds issued by communities in the state of Arkansas and, in view of the recent unfavorable newspaper articles criticising the road construction program throughout the state and the bonds issued in payment thereof, it was deemed advisable by the Executive Committee of the Group to conduct on its own behalf an investigation, the results of which are given herein.

Many of the members of this Group have been dealing in these securities for a great many years, and through this long experience, are familiar with the fundamental requirements necessary to produce sound issues of bonds.

Experienced men connected with St. Louis investment bond houses visited fourteen representative counties, which reflect a fair average of the conditions prevailing within the entire state.

Tax collections and tax records over a period of five years were checked and the percentage of delinquent taxes obtained. Instructions were given to obtain the facts, whether favorable or unfavorable to the particular district.

The constitution of the State of Arkansas prohibits the issuance of direct interest bearing obligations by its counties or cities. The present system of improvement district bonds was, therefore, born of necessity and has been in vogue for many years. The bonds are uniformly issued in serial form. Many of the districts have been in existence for years and their bonds, or a great majority of them, have been paid and retired.

A long line of court decisions both in the State of Arkansas and the federal courts of the United States, has upheld the legality of these obligations, which are collectible through adequate tax levies on the benefited property.

To those familiar with conditions in Arkansas, the great necessity for these improvement districts is apparent. A large area of alluvial land requires draining and, in some cases, leveeing. Good roads naturally follow, and in turn are just as necessary. Crops cannot be marketed readily without good roads and by reason of such development substantial areas of rich land are automatically placed in cultivation. The gain in wealth, and population, to say nothing of improved living conditions, is apparent.

The Arkansas road program, as planned, was undoubtedly too ambitious. Much of this plan has been modified since the reduction in the prices of farm products, and has removed the cause of much criticism.

There are undoubtedly specific cases in Arkansas, as well as in other states, of extravagance and poor business administration. It is evident to any fair-minded person that the administration of public affairs is never 100% perfect in any state, but we believe that the record in Arkansas in this respect averages as well as that of any other state.

These pages are intended to present facts and opinions so that the reader may judge of the ability of the communities in Arkansas to take care of the indebtedness which they owe in the form of bonds payable by special taxation. The record of tax payments throughout the state has been exceptionally good in the past, which is the best index of what may be expected in the future.

Tax collections are not fully tabulated and it is impossible at this time to list delinquencies in the 1920 tax, which is now in the process of collection. But the Committee's investigators report that collections this year compare favorably with collections in past years and they have been able to find nothing as yet which would point to the contrary.

Summarizing the data compiled, the Committee is of the opinion that Arkansas improvement bonds, as a class, have been issued under due legal authority, with the consent of the governed, that the improvements were warranted in public opinion, resulted in enhanced values and in an improved working condition, and that the situation as to the collection and payment of taxes compares most favorably with the record of other states. Further, that where care had been exercised in the selection of bonds offered to the public and the fundamental requirements

followed, all of the evidence obtained was an assurance of the security and stability of the bonds as an investment, and that, viewing the situation as a whole, the criticism above mentioned was unwarranted and that many of the statements made were false and misleading.

## STATE OF LOUISIANA

### *Information furnished by the Chairman of the Municipal Securities Committee*

By far the most important municipal legislation with which our Committee has had to do this year is the adoption of a new Constitution for this state. The Legislative Committee of the New Orleans Group was largely instrumental in framing those provisions of this Constitution that have to do with the authorization and issue of bonds payable by taxation. These provisions were drafted, at the request of the Committee, by Mr. John C. Thomson of the New York Bar, and were adopted, with practically no material change, by the Constitutional Convention.

The provisions are found in Articles XIV and XV of the Constitution. They define municipal corporations, parishes and school, road, sub-road, sewerage, drainage and sub-drainage districts, as subdivisions of the state which may incur debt and issue negotiable bonds. They provide the purposes for which each of these subdivisions may incur debt and fix the limit of the indebtedness, and also prescribe a maximum rate of interest of 6%. The limit of indebtedness, except for drainage and sub-drainage districts, is fixed at 10% of the assessed valuation of the issuing subdivision. Bonds issued by levee, navigation, and reclamation districts are authorized under separate sections of the Constitution.

The preparation of the provisions of this Constitution, with respect to the issue of municipal bonds, was handled almost entirely by members of the Association. The work represents the latest thought with respect to constitutional provisions authorizing bond issues, and we suggest that each member of the Association, who is interested in municipal bond laws, obtain a copy of this Constitution and study carefully its provisions, so that he may be prepared to suggest similar provisions in his own state in case a proposed revision of its Constitution is considered.

A Special Session of the Legislature in Louisiana is in session at the time this report is being written, having been convened on September 6, 1921, for the purpose of passing laws to put into effect the provisions of the new Constitution.

An Act, prepared by Mr. John C. Thomson at the request of the Legislative Committee of the New Orleans Group, to authorize municipal corporations, parishes and other subdivisions of Louisiana to incur debt and issue negotiable bonds and prescribing the procedure therefor, has been introduced in the legislature with practical assurance of its adoption without material change. The Act is short, is easily understandable and it combines in one bill, the authority for the issue of all bonds payable by taxation except those issued by the state, the city and port of New Orleans and levee, reclamation and navigation districts.

A separate law has been prepared by Messrs. Charles & Rutherford, Attorneys, St. Louis, authorizing the issue of reclamation and drainage district bonds under



authority of Article XV of the Constitution. This law follows largely the drainage district laws of Missouri, Mississippi and other middle western states. Printed copies of these laws may be obtained from the Chairman of the Legislative Committee of the New Orleans Group. They are well worth the study of all members interested in municipal bond issues.

## STATE OF TEXAS

*Information furnished by J. T. Bowman, Austin, Texas*

House Bill No. 42 putting into effect amended Section 4, Article 11 of the Constitution, relating to cities and towns having a population of 5,000 or less, and amended Section 5, Article 11, of the Constitution, relating to cities having more than 5,000 inhabitants and not having special charters, providing for the levy, assessment and collection of taxes by such cities, providing for the issuance of bonds by such cities payable out of said taxes, and validating certain bond elections. This bill increases the maximum rate of interest to 6% and provides that such bonds may be issued serially.

House Bill No. 118—An Act putting into effect amended Section 3, Article 7 of the Constitution, relating to independent and common school districts. This act contains substantially the same provisions for school districts that Act No. 42 contains for cities and towns. Both of these laws were adopted and are now in effect.

A similar law—House Bill No. 178—was introduced, having for its purpose raising the rate of interest on all road district bonds to 6%. The bill was favorably reported out of committee, but failed to pass.

Another bill was introduced to permit the sale of bonds at less than par, but this was also defeated.

At a recent special session of the legislature another effort was made to secure the passage of the bill permitting the sale of bonds at a discount, but this was again defeated, due, not so much to opposition that developed, but to the fact that the bill was introduced too late in the session to get action on it.

## STATE OF OKLAHOMA

*Information furnished by Geo. I. Gilbert, Oklahoma City, Oklahoma*

No municipal laws of interest were passed by the last legislature of this state.

Attention is called, however, to Sections 26 and 27 of Article X of the Oklahoma Constitution, which are the foundations of the bond laws of this state. Section 27 has been expressly held to be self-executing and requires no legislative action. Both of these sections provide that before any bonds are issued, a levy must be made sufficient to pay the interest and create a sinking fund for the payment of principal.

Chapter 7 of Article I of the Revised Laws of Oklahoma 1910 provides that practically all bonds shall be payable at the fiscal agency of the state, a national

bank in New York City, to be designated by the Governor, and requires the Treasurer of the issuing community to remit to such agency, sufficient funds to meet maturing bonds and coupons at least fifteen days before they are due.

All bonds, except funding and refunding bonds, must be authorized by vote of the people. In case of funding and refunding bonds, both the indebtedness funded or refunded and the proceedings leading up to the issuance of the bonds must be expressly approved by the district court, and the Supreme Court has held that this approval, if not appealed from, has the same effect as the approval by the Supreme Court of the issue in question.

Sections 376 and 377 of the Revised Laws of 1910 provide that the Attorney General shall be ex-officio Bond Commissioner and shall approve each issue of bonds, and that no action shall be commenced in any court to contest the legality of said bonds after thirty days from such approval.

### STATE OF KANSAS

*Information furnished by H. P. Wright of H. P. Wright Investment Co.,  
Kansas City, Mo.*

No laws were adopted affecting municipal bond issues. A bill was introduced to authorize municipalities to increase the rate of interest to 8% and to sell bonds at a discount, but the bill was defeated.

The legislature passed a bill permitting municipalities to grant franchises for a maximum period of thirty-five years to public utility companies, thus removing the present twenty-year limit.

### STATE OF NEBRASKA

*Information furnished by C. J. Thorson, First Trust Company, Omaha*

At a special election held September 21, 1920, a new Constitution was adopted. It is very general in its provisions concerning the issuance of municipal bonds, leaving the field practically clear for legislative action. The Legislative Committee of the Omaha Bondmen's Club endeavored to have the Constitutional Convention fix specific provisions in the new Constitution relating to municipal bond issues, limits of indebtedness, etc., but the attitude of the convention was to put as few limitations in the Constitution as possible, thereby leaving it for the legislature to fix such provisions by statute.

On account of the adoption of the new Constitution, no important legislation affecting the issue of municipal bonds was passed, except a bill providing that the Attorney General's office shall carefully analyze the municipal bond laws of the state and report to the next legislature a complete codification of such laws, together with his recommendations as to any additional legislation that may be needed. In this work the Attorney General will have the co-operation of the Omaha members of the I. B. A. of A. and these members, in turn, have requested the Municipal Securities Committee to assist in the work.

## STATE OF SOUTH DAKOTA

*Information furnished by the Chairman of the Municipal Securities Committee*

Chapter 204 provides for the establishment and maintenance of county high schools and authorizes the issue of bonds in an amount not to exceed 1% of the assessed valuation of property within the county. Bonds must mature in not more than twenty years, with a maximum rate of 7%. These bonds are authorized in addition to all other bonds which the county is permitted to issue. The law provides for an unrepealable tax levy sufficient to pay principal and interest, but not to exceed 20% of the debt in any one year.

Chapter 196 amends Section 8476 R. S. 1919, as amended by Chapter 46 of the Session Acts of 1920 relating to drainage districts. The law authorizes the Board of County Commissioners to issue bonds at not exceeding 7% interest, maturing in not more than twenty years, the bonds to be payable solely out of assessments levied against lands within the district.

Chapter 254 creates a State-Home-Building Department and provides for the loaning of money and the extension of credit to people of the state on real estate security, to assist in building homes. The Act fixes the conditions on which loans may be made. No loan shall exceed 80% of the cost of building the home, nor run longer than twelve years, and the rate charged shall not be more than 1½% above the rate the state bonds bear. The Act authorizes the issue of state bonds not to exceed \$500,000 in any biennial period, the first period to end December 31, 1922. The state board fixes the rate of interest, maturities and place of payment, but all bonds must be optional five years from their date.

Chapter 366 amends certain sections of Chapter 315 of the Session Acts of 1919 relating to land settlements, creates a State Land Settlement Board, and authorizes the issue of state bonds or warrants not to exceed \$2,000,000, to provide funds to acquire lands, improve same and sell to approved settlers, giving preference to soldiers. Bonds shall not mature later than ten years from date; the rate of interest and other details are fixed by the Board. Bonds cannot be sold for less than par.

Chapter 312 amends Sections 6420 and 6421 R. S. 1919 relating to refunding bonds of municipalities. These must mature not less than five, nor more than twenty years from date. The maximum rate is 6% for cities of the first and second class, 7% for cities of the third class and towns. Bonds cannot be sold for less than par except an allowance of 3% of the amount of bonds sold may be paid for printing, advertising and brokerage.

Chapter 316 empowers municipal corporations to issue bonds for the construction of sewers. The issue of such bonds is to be governed in all respects by Title 6, Part 8, Chapter 10, Article I, R. S. 1919.

Chapter 363 creates a Soldiers' Compensation Board and authorizes the issue of state bonds, to an amount not exceeding \$6,000,000. The maximum rate is 6%. The maturity and other details of the issue may be fixed by the Board but no bonds can be sold at less than par. The bonds are payable by direct, unlimited ad valorem taxes and are exempt from all general state, county and municipal taxes, and also from the state income tax. The act provides for cash bonuses for resident soldiers only, at the rate of \$15 per month for each month in service, with a maximum payment of \$400.

Chapter 377 amends Section 6 of Chapter 324 of the Session Acts of 1919 creating a Board of State Cement Commissioners and authorizing the Board to issue state bonds in an amount not to exceed \$2,000,000 to provide funds for leasing, purchasing, constructing, equipping, managing and operating a cement plant; or plants, within the state. The maximum rate is 6%. The bonds are known as **INTERNAL IMPROVEMENT BONDS OF SOUTH DAKOTA**. The maximum maturity is twenty years and the bonds cannot be sold at less than par.

Chapter 385 amends Section I of Chapter 334 of the Session Acts of 1919 relating to highway bonds, and authorizes the State Highway Commission to issue state bonds not to exceed in amount \$6,000,000 to provide funds to construct a system of state highways. The maximum rate is 6% and the bonds are to be paid serially in not more than ten years.

Chapter 127 exempts state highway bonds from all general state, county and municipal taxes and also from the state income tax.

### STATE OF MONTANA

*Information furnished by L. E. Wakefield of Wells-Dickey Co., Minneapolis, Minn.*

State bond issues: Chapter 13 of the Extraordinary Session of the Seventeenth Legislative Assembly authorizes the issuance of \$3,000,000 of bonds by the State of Montana for the funding of its outstanding and unpaid claims. These bonds are issuable in two lots:

1. Those issued in 1921 to be in an amount not exceeding current tax levy.
2. Those issued in 1922 to be in an amount not exceeding tax levy for that year. All bonds or notes, as they are called, mature in one year from date of issuance. Those issued during 1921 are to bear interest not to exceed  $7\frac{1}{2}\%$  and those issued in the year 1922 are to bear interest at a rate not to exceed 7%.

The bonds are to be offered for sale by public advertisement, after which the Board of Examiners (who have the supervision of the sale) may dispose of them at private sale should they deem it desirable. Sale must be made at not less than par.

The constitutionality of this Act was questionable. However, the Act has, since its passage, been sustained by the Supreme Court of the State of Montana.

Chapter 162 authorizes the issuance of \$4,500,000 in Soldiers' Bonus Bonds of the State of Montana, bearing interest at not exceeding  $5\frac{1}{2}\%$ , maturing in twenty years, redeemable in ten years. These may be disposed of at public or private sale at not less than par.

In order that these bonds may be legal, it is necessary that they be approved by a vote of the people of the state, and the Act provides for the submission of the question at the next election—general or special—which is held in the state.

Chapter 265 of the Session Laws provides for a \$50,000 maximum bond issue for the purpose of acquiring lands and lots in the City of Helena, Montana, for use as a part of the state capitol grounds. These bonds, however, are not a general obligation of the State of Montana and are only a lien or charge against lands and funds granted to the State of Montana for the purpose of erecting buildings at the state capitol. Bonds have a maximum maturity of thirty years and are redeemable at any time after fifteen years. They shall bear a maximum rate of 6% and are salable at either public or private sale.

The Board of Land Commissioners supervises the issuance and sale of these bonds.

Initiative Measure No. 19 was one of the very few of the many measures submitted at the general election on November 2, 1920, which received the favorable vote of the state electorate. The fact that it refers entirely to general educational purposes probably accounts for its having been adopted. This measure authorizes the issuance of \$5,000,000 in bonds, for the purpose of constructing, repairing and equipping the various educational institutions in the State of Montana, such as the State University, College of Agriculture, and Mechanic Arts, School of Mines, State Normal College, State Orphans Home, Montana School for the Deaf and Blind, Montana State Industrial School and the State Vocational School for Girls.

These bonds are to be issued in series from time to time as the State Board of Examiners may deem desirable and expedient. They are to mature in not longer than twenty years and shall be made redeemable at the option of the State Board of Examiners at any time after ten years. The maximum rate of interest is  $5\frac{1}{2}\%$  and may be disposed of by the State Board of Examiners at either public or private sale.

An additional provision of the measure which might tend to add attractiveness to the bond is that providing for an annual tax levy of  $10/12$  of 1 mill on all the property of the state, which, presumably, will return a fund amply sufficient to retire the principal and interest of the bonds as they respectively become due. This measure became effective December 6, 1920.

County bonds: The Special Relief Act passed in 1919, has been amended, increasing the maximum maturity of the bonds to not less than five, nor more than ten, years, whereas it was, prior to the change, not less than two, nor more than five years. Chapter 82.

The law authorizing the issuance of county high school bonds has been amended by Chapter 132 of the Session Laws, but the amendment is not very important and merely provides for another means of initiating the question. Formerly it originated from the Board of County Commissioners and now it may originate from the Board of School Trustees of the county high school itself but must pass through the Board of County Commissioners still before it shall have been submitted to the vote of the people.

School districts: The Legislature passed an Act which made it possible for all of the school districts in the state, including county high school districts, to fund their outstanding indebtedness represented by warrants or orders issued for teachers' salaries, school supplies, equipment, repairs and other ordinary and necessary expenses incurred in the maintenance of schools. Bonds can be issued when there is insufficient money to the credit of the school district applicable to the payment of said outstanding indebtedness or when a levy and collection for the purpose of paying the indebtedness would be a hardship or a burden. No vote is necessary to authorize the bonds and they may bear interest at a rate not exceeding six per cent (6%) per annum, may mature in twenty years, and may be made redeemable before that time. Bonds have to be sold after public advertisement for a period of thirty days prior to the day of sale, but the school board is authorized after that time to reject any and all bids and sell the bonds at a private sale if deemed desirable.

This legislation is probably unobjectionable in its application to all common school districts in the state, but as applied to county funding bonds issued for the maintenance, etc., of county high schools, is awkward and very likely conflicts with the constitutional provision requiring a vote of the electors of the county in the matter of incurring any indebtedness in excess of \$10,000, for a single purpose. While, of course, the issuance of the funding bonds themselves is not the creation of an indebtedness, the issuance of the warrants which the bonds are supposed to refund is the creation of an indebtedness and bonds authorized to take up void warrants would probably not be approved.

Chapter 189 of the Session Laws is apparently of a nature similar to the law just reviewed, but applicable entirely to counties. It is practically identical in its essential features with the general school funding law and, of course, is subject to the objection above cited, in that it is in conflict with the constitutional provision requiring the vote of the people on the incurring of an indebtedness in excess of \$10,000, for a single purpose.

**Irrigation districts:** The irrigation law has been practically completely redrafted and considerable improvement is noted over the former statute, notably that a large part of the supervision and general advisory work in connection with the irrigation districts is now vested in the Public Service Commission of the state of Montana. This tends to centralize irrigation work and centralize the various elements, the great variation of which in the past has entirely localized the attractiveness of irrigation paper. Essentially, the bonds remain special assessment bonds and nothing short of a constitutional amendment will make it possible and practicable to issue general obligation bonds of either the state or the respective counties.

However, irrigation bonds (and this is a great improvement over the laws that formerly existed) are now made a charge upon the lands in the irrigation district until the bonds are paid. This is about as near an approach to creating a district obligation as could possibly be approved in the face of the constitutional requirements.

**Drainage districts:** The drainage law was also amended in the present session of the legislature and a more formal and possibly, a more merchantable type of paper has been created than has existed heretofore. The bonds, of course, are of necessity, special assessment bonds and, unlike the revised irrigation bonds, are merely a charge against the fund derived from an assessment and do not, therefore, approach the general blanket obligation of the respective districts.

The drainage assessments are made payable in not more than fifteen annual installments and the bonds are authorized to mature not more than one year from the time of the last installment.

The maximum rate of these bonds is 6% and they are to be sold at either private or public sale by the county commissioners.

A rather interesting, and, certainly a unique feature, is also noted in connection with these bonds and that is the fact that they may be sold at any price not less than 90% of their face value.

**Special improvement districts:** Considerable legislation has been enacted in Montana having to do with special improvement districts in towns and cities and, incidentally, bonds which are authorized to be issued in the making

of certain improvements in the respective districts. The general framework of this legislation has been carried into the country by the recent legislature. Improvements such as sewers, lighting systems, waterworks plants, sidewalks and other special improvements are authorized to be made in thickly populated localities outside of incorporated cities and towns on petition of 60% of the fee-holders affected thereby.

The improvement district is, in this case, created by the Board of County Commissioners and exclusive jurisdiction over the district is vested in such Board. Otherwise the organization of the district, the making of the improvement, spreading of the assessment and the issuance of the warrants or bonds are, naturally, similar to the provisions already existing for improvement districts within towns and cities.

The warrants or bonds are payable on or before not exceeding ten years from date and bear interest at a rate not exceeding 6% per annum, and are, of course, payable from special assessments paid into the special improvement district fund.

Bonds are delivered to the contractor in payment for work as the same progresses and are, as suggested above, subject to call whenever there are funds available to retire the same.

General legislation: A rather drastic bit of legislation was put over by the present session of the legislature requiring a petition of 20% of the *qualified electors who are taxpayers* in order that an election may be called in any school district, town, city or county for the issuance of bonds. Furthermore, the taxpayers must be those who paid taxes on property actually situated within the respective school district, town, city or county whose names appear on the assessment roll for the year next preceding such election.

The Act further provides that in all bond elections hereafter held by any school district, town, city or county only *qualified, registered electors who are taxpayers upon property in the respective school district, town, city or county and whose names appear on the assessment roll for the year next preceding such election* shall be entitled to vote. The Act, however, has been amended exempting counties from the above provision for the reason that otherwise it would conflict with the constitutional provision providing for county bond elections at which *qualified electors* shall vote.

A possible market for a small amount of Montana bonds has been afforded by the measure afore referred to, providing for the issuance of state educational bonds in the amount of \$5,000,000, and levying of a tax for the payment of same. Chapter 83 of the Session Laws provides that the sinking fund which shall have been created by the levying and collection of a tax for the retiring of these bonds may be used with the exception of \$2,000, for the purpose of, first, retiring the state educational bonds themselves, second, for the purpose of purchasing warrants against the general fund of the state, third, for the purpose of investing in any legally issued bonds of any city, county, town or school district in the state, providing they can be purchased at a price not exceeding par and accrued interest.

An apparent attempt was made to revise the system of notifying the State Land Board of all bond sales more than thirty days prior thereto, sending the Board a complete transcript of legal proceedings of the respective issue, but the

old law was left unamended and unrepealed, thus leaving the new scheme of sending a notice of sale a brief period before the sale date, practically inapplicable and ineffective.

### STATE OF COLORADO

*Information furnished by T. H. Reynolds, of E. H. Rollins & Sons, Denver, Colo.*

The Colorado Session Laws are not yet available, and it has therefore been necessary to examine the House and Senate Bills passed by the 1921 legislature on file in the office of the Secretary of State.

House Bill No. 124 is an act to provide for contracting a debt by a loan for the purpose of creating a fund for the construction and improvement of public highways in the state of Colorado, said indebtedness to be evidenced by coupon interest bearing bonds. This act authorizes the issuance of \$5,000,000 in bonds by the state of Colorado for the purpose of constructing and improving public highways and provides that \$2,000,000 of said bonds shall be dated June 1, 1921, and \$3,000,000 dated June 1, 1922. The bonds to be due 30 years after date but optional for redemption 10 years after date, to bear interest at the rate of five per cent per annum and to be sold at not less than par and accrued interest.

House Bill No. 481 is an act authorizing counties, cities and towns to erect, equip, or purchase and equip, soldiers, sailors and marines memorial buildings, and to purchase or condemn necessary ground therefor, and to issue bonds therefor, and to levy a special tax for the purpose of liquidating said bonds and for the maintenance of such buildings. The act provides that the bonds authorized are to be known as "Liberty Memorial Bonds," to be issued and sold as provided by law, and that said bonds shall provide for portions of such bonds to become due at different definite periods, but not in less than five, nor more than fifty, years from date.

House Bill No. 426 is an act authorizing any city or town having an outstanding bonded indebtedness amounting to one-fourth of its assessed valuation, or over, to provide for taxation to pay such indebtedness, and to authorize property-owners to discharge the lien of such bond tax at one time or installments.

Senate Bill No. 229 is an act to amend Section 6703 of the Revised Statutes of Colorado, 1908, regarding the payment of bonds of consolidated school districts.

Senate Bill No. 230 is an act entitled "To enable cities and towns to refund their bonded indebtedness," and is similar to the existing law which it repeals.

Senate Bill No. 38, entitled "Relating to bonds of counties, cities and towns," repealed Sections 403 to 418 inclusive of the Revised Statutes of 1908.

Senate Bill No. 33 repeals Sections 5789, 5792 to 5825, Revised Statutes 1908, the same being an old road district law and was recommended by the Committee on Statute Revision.

Senate Bill No. 38 repeals Sections 403 to 418 inclusive, Revised Statutes, 1908, being Chapter 16, regarding bonds of counties, cities and towns.

Senate Bill No. 55 is an act to amend Section 5304 of the Revised Statutes of 1908, being Section 8 of "An Act to provide for the creation of districts to be benefited by certain public improvements \* \* \*," but this act does not materially affect the issuance of bonds.



## STATE OF NEW MEXICO

*Information furnished by T. H. Reynolds of E. H. Rollins & Sons, Denver, Colo.*

The laws relating to municipal bonds passed by the 1921 Legislature are as follows:

Chapter 80 of the Session Laws of New Mexico for 1921, provides in part:

Sec. 1. "That for the purpose of constructing and completing an addition to the present capitol building at Santa Fe, New Mexico, the Governor shall appoint three reputable citizens of New Mexico \* \* \* , as a commission, to be known as the Capitol Addition Commission \* \* \*."

Sec. 5. "For the purpose of providing funds for the construction of such addition and for the payment of the appropriation made by the preceding section, the said Commission is authorized to issue debentures to the amount of \$250,000, in such form as may be prescribed by the Attorney General of the state, and they shall be signed by the state Treasurer and attested by the signature of the Secretary under the seal of the Commission, and shall be numbered in the order of their issue. They shall be dated the first day of July, 1921, and shall be payable twenty-five years from their date, or at the option of the state by its Treasurer at any time after the end of ten years from their date, out of the fund specified in the next preceding section hereof and shall be issued in denomination of five hundred dollars each, and shall bear interest at the rate of six per centum per annum, payable semi-annually, both interest and principal payable at the office of the state Treasurer, and shall have coupons attached thereto for the semi-annual interest, shall bear the engraved or lithographed facsimile of the signature of the state Treasurer."

Sec. 6. " \* \* \* and such debentures shall be issued from time to time in portions thereof as the Commission may, in its discretion, determine, and upon receiving the written request of said Commission, stating the amount of such debentures, which, in the judgment of the Commission, should be issued and sold at any time to provide funds for the purposes authorized by this Act, the state Treasurer shall offer such debentures for sale after publication of notice of the time and place of sale in a newspaper published in the City of Santa Fe, New Mexico, and also in one financial newspaper published in the City of New York, once each week for four successive weeks \* \* \* ."

**HIGHWAYS:** Chapter 329 of the Session Laws of New Mexico for 1921 provides in part:

Sec. 1. "In order to provide funds for the construction and improvement of public highways and to enable the state and counties to meet the provisions of the Federal Aid Road Act, \* \* \* the boards of county commissioners of the several counties of the state are each hereby authorized and directed to make and cause to be collected, a special tax levy of two mills on each dollar of the valuation of all property in their respective counties subject to taxation for state and county purposes, which levy

shall be made at the regular June meeting of each board of county commissioners in each of the years 1921, 1922 and 1923, and the taxes provided by such levies shall be collected at the times and in the manner provided for the collection of other county taxes, and shall be paid into the state treasury without deduction of any percentage thereof and credited to the state road fund.

In order to provide funds as needed to carry out the provisions of this Act, the State Highway Commission is hereby authorized to anticipate the proceeds of such tax levies by the issuance and sale of certificates or debentures, payable within two years after date thereof, with interest at a rate not exceeding six per centum per annum, to be fixed by the State Highway Commission, which certificates shall not be issued in excess of the estimated amount of the proceeds of said two mill levies for the year or years for which such certificates are issued, based upon the percentage of collection of taxes for the preceding year.

Such certificates or debentures shall be signed by the president of the State Highway Commission, attested by its Secretary under the seal of the Commission, and shall be countersigned by the state Treasurer.

\* \* \* The said certificates or debentures shall be sold by the state Treasurer at such times, in such amounts and in such denominations, as the State Highway Commission shall direct, at not less than par and accrued interest, to the highest bidder for cash, after advertising the time and place of sale in some newspaper published in the city of New York, state of New York, and one newspaper published in the state of New Mexico, for four successive weeks next prior to the day of sale. The said Treasurer may reject any and all bids and may readvertise."

Chapter 157, Session Laws of New Mexico for the year 1921, provides that a certain highway commencing at a point on the state highway between Santa Fe and Albuquerque, New Mexico, and more particularly described in said chapter, shall be declared and designated to be a state highway, and that the Board of County Commissioners of the County of Santa Fe shall at their first meeting after this act takes effect, levy a tax of one and one-half mills on the dollar of assessed valuation for each of the years of 1921 and 1922, and further provides that the State Highway Commission is authorized to anticipate the proceeds of such tax levies by the issuance and sale of debentures in such amounts, payable at such time, and with interest at such rate, not exceeding six per cent per annum, as the State Highway Commission shall determine, which debentures shall not be issued in excess of the estimated amount of the proceeds of such tax levies based upon percentage of collections for the preceding year. This chapter further provides that such debentures shall not be sold at less than par and accrued interest, to the highest bidder, for cash, after advertising the same and the time and place of sale in a newspaper published in the city of New York, state of New York, and a newspaper published in the city of Santa Fe, New Mexico, for four successive weeks next prior to the date of sale.

Chapter 167, Session Laws of New Mexico for the year 1921, is an act authorizing the issue and sale of state highway bonds in the sum of \$2,000,000 to provide

funds for the construction and improvement of state highways and to enable the state to meet and secure allotments of Federal funds to aid in construction and improvements of roads. The Act provides that the state Treasurer shall prepare negotiable bonds of the State of New Mexico, to be known as "State Highway Bonds," in the denomination of \$1,000 each, or such similar denominations as the Government may determine, to be numbered consecutively and to be dated January 1, 1922. Said bonds shall bear interest at such rate as the Governor shall determine, not exceeding six per cent per annum, payable semi-annually. The Act further provides that the bonds shall be payable thirty years after date, and that it shall be provided in said bonds that they may be redeemed at the option of the State at any time after ten years from their date. It is provided that the bonds shall be sold by the state Treasurer at such times and in such amounts as the Governor may direct, to the highest bidder, for cash, at not less than par and accrued interest to date of sale, and that the state Treasurer shall publish a notice of the time and place of sale in a newspaper published in the city of Santa Fe and also in one newspaper published in each of the cities of New York and Chicago, once each week for four successive weeks next prior to the date fixed for said sale, the first publication thereof to be at least thirty days prior to the date of sale.

Chapter 171, Session Laws of New Mexico for the year 1921, is an act declaring the road between Pankey's Gate on the Santa Fe Trail to Lamy, Galisteo and thence to the Torrance county line, a state highway, and provides that the Board of County Commissioners of the county of Santa Fe shall at their first meeting after this act takes effect, levy a tax of one and one-half mills on the dollar of assessed valuation of all property in said county subject to taxation for each of the years 1921 and 1922. The act also provides that the State Highway Commission is hereby authorized to anticipate the proceeds of such tax levies by the issuance and sale of debentures in such amounts, payable at such times and with interest at such rate, not exceeding six per cent per annum, as the State Highway Commission shall determine. The Act further provides that said debentures shall be sold by the state Treasurer in such amounts as the State Highway Commission shall request, at not less than par and accrued interest, after advertising the time and place of sale in a newspaper published in the city of New York, state of New York, and in a newspaper published in the city of Santa Fe, state of New Mexico, for four successive weeks next prior to the date of sale.

There was a resolution adopted by the 1921 Legislature of New Mexico, providing for the submission to the electors of the state at an election to be held, amending Article 9 of the Constitution of the state of New Mexico, by adding thereto an additional section, to be numbered Section 16. This amendment provides in part that the laws enacted by the Fifth Legislature authorizing the issuance and sale of state highway bonds, in order to enable the state to meet and secure allotments of Federal funds, and laws enacted authorizing the issue and sale of state highway debentures and to anticipate the collection of revenues, shall take effect without submitting them to the electors of the state, and notwithstanding that the total indebtedness of the state may thereby temporarily exceed one per cent of the assessed valuation of all property subject to taxation in the state, and provides further that the total amount of such state highway

bonds, payable from proceeds of taxes levied on property outstanding at any one time, shall not exceed \$2,000,000.

Chapter 48 of the Session Laws of New Mexico for the year 1921 is an Act creating a County of Harding, and providing for the issuance, sale, transfer and assignment of establishment bonds in aid thereof. This Act provides in part that for the purpose of enabling the County of Harding to pay to the counties of Mora and Union, the amounts found by the loan commissioners of the state of New Mexico to be due the said counties respectively, the County of Harding is hereby authorized, directed and commanded immediately after its organization, to issue its bonds in the total amount certified by the Board of Loan Commissioners to be due by said county to the counties of Mora and Union. Said bonds to bear interest at the rate of six per cent per annum, payable absolutely twenty years after their date and at the option of said county, ten years from their date, and that they shall be in the amounts of \$100 each or any multiple thereof. The Act further provides that such bonds shall be sold at private or public sale, for cash, and shall not be sold for less than par with accrued interest. Said Act further provides that the County of Harding, for the purpose of meeting expenses contracted and payable for the years 1920 and 1921, and not otherwise, may, after tax levies are duly made thereof, anticipate the collection of such tax levies by issuing not to exceed \$30,000 of certificates of indebtedness. Said Act further provides that said County of Harding may issue bonds for court-house and jail purposes to an amount not exceeding \$25,000, which bonds shall be issued in the manner as provided by the constitution and laws of the state of New Mexico, payable absolutely thirty years from that date and at the option of the county, twenty years from their date. Said Act further provides that the Board of Education of the village of Roy, after levying a certain tax, may anticipate the proceeds of the collection of such tax by the issuance and sale at such time and in such amounts and denominations, as, in the judgment of said Board of Education, may be necessary, of certificates of indebtedness, to be called debentures of Municipal School District No. 31, Harding County, which shall be payable at such times and places, and bear interest at such rate, not to exceed six per cent per annum, as such Board of Education may determine.

Chapter 6 of the Session Laws of 1921 is an Act to provide for reimbursing the counties of Santa Fe, Grant, Luna and Hidalgo, for moneys paid by said counties respectively, or from proceeds of taxes derived from property now included within said counties as interest on the bonds issued by Santa Fe County and bonds issued by Grant County which were validated, approved and confirmed by the Act of Congress, January 16, 1897, and to reimburse the town of Silver City for moneys paid by said town as principal and interest on the bonds issued by said town, which were likewise validated, approved and confirmed by said Act of Congress, by the issue of Series "C" bonds of the state of New Mexico.

Chapter 124 of the Session Laws of 1921 of the state of New Mexico, contains an act to provide for registration of bonds or debentures issued by the state of New Mexico, or by the State Highway Commission, or by any county, school district or municipality of this state. The act provides in part that:

"Whenever the owner of any bond or debenture heretofore or hereafter issued by the state of New Mexico, the State Highway Commission or

any county, school district, or municipality of this state, shall present such bond or debenture to the Treasurer, by whom the same is payable, with the request that said bond or debenture be registered in the name of the owner, either as to principal only, or as to both principal and interest, said Treasurer shall register the same by entering the number of said bond or debenture, the name of the owner and the date of registration in a bond registry, to be kept for that purpose, and shall stamp or endorse, either upon the face or back of said bond or debenture, a statement that the same is registered in the name of the owner as to principal only, or as to both principal and interest, in which latter case, any interest coupons thereof shall be detached and cancelled. \* \* \*

Chapter 165 of the Session Laws of New Mexico for the year 1921, contains an act to amend Sections 3716, 3717 and 3721 of Article 9 of Chapter LXXV of the New Mexico Statutes, codification of 1915, relative to waterworks and sewer bonds. Which act is as follows:

Sec. 1. "That Section 3716 of Article IX, of Chapter LXXV of the New Mexico Statutes, Codification of 1915, be amended so as to read as follows:

'That any incorporated city, town or village is hereby authorized and empowered, subject to the limitations, and in accordance with the provisions of Article IX of the Constitution, to issue negotiable bonds for the purpose of securing funds for the construction, purchase, enlargement, improvement or extension of a system of supplying water, or a sewer system, or to provide proper means for protection from fire.'

Sec. 2. "That Section 3717 of Article IX of Chapter LXXV of the New Mexico Statutes, Codification of 1915, be amended so as to read as follows:

'That before any bonds shall be issued, the city council or board of town or village trustees, as the case may be, shall cause the question of issuing such bonds to be submitted to a vote of such qualified electors thereof as have paid a property tax therein during the preceding year, wherein shall be stated the purpose for which said bonds are to be issued, and the amount thereof, and if for more than one of said purposes, a separate question shall be submitted for each purpose voted upon at the same election and on the same ballot; said election to be held at the same time as the regular election for councilmen, aldermen, or other officers of such city, town or village, by ballots deposited in a separate ballot box; provided, however, that should the Constitution of this state be amended so as to permit such bond elections to be held at other times than at a regular election of municipal officers, then said election for bonds may be held at such times as may be fixed by the governing body of such municipality. Said city council or board of town or village trustees shall cause to be published at least once a week for four consecutive weeks immediately prior to said election, in a newspaper of general circulation therein, or if no such newspaper is published therein, shall cause to be posted, not less than twenty-five, nor more than thirty, days before said election, in not less than eight public places within such city, town, or village, a notice of the

time and place or places of holding such election, and the purpose or purposes for which said bonds are to be issued. No registration shall be required for such elections.

"The ballots cast at such election on said question or questions shall have printed or written thereon, the words "For waterworks (or sewer, or fire protection) bond issue," or words of like import, or "Against waterworks (or sewer, or fire protection) bond issue," or words of like import, as the case may be; and such ballots shall be of uniform size and color."

Sec. 8. "That Section 3721 of Article IX, of Chapter LXXV of the New Mexico Statutes, Codification of 1915, be amended so as to read as follows:

'Such bonds or the proceeds thereof, shall be used only for the purpose of constructing, acquiring, enlarging, improving or extending a system of waterworks or sewer system, or of purchasing apparatus for fire protection or providing, enlarging or improving a system of fire protection for such city, town, or village, the acquisition of water or water rights, necessary real estate or rights of way, privileges and easements and necessary appurtenances for such system; and the proceeds of the sale thereof shall be paid out only upon the order of the city council or board of town or village trustees, and upon a warrant signed by the mayor or chairman, and countersigned by the clerk and drawn upon the treasurer. The treasurer of such city, town or village shall give an additional bond or undertaking to the city, town or village in an amount determined by the city council or board of town or village trustees to be adequate, conditioned for the safe keeping of such funds and the proper management and disposition thereof, which bond shall be approved by the city council or board of town or village trustees of such city, town or village.'

Chapter 40 of the Session Laws of 1921 of New Mexico contains an act to amend Section 4905 with reference to boundaries of School Districts, and provides in part that:

"No bonds of any district shall be issued or any special tax levied until the boundaries of said districts shall have been established and the property marked by monuments or natural objects as provided by law. \* \* \*

Chapter 206 of the Session Laws of New Mexico for the year 1921 contains an act making appropriations for the expenses of the executive, legislative and judicial departments, interest and sinking funds, payment of public debt, public schools and other expenses required by existing laws, during the tenth and eleventh fiscal years, and deficiencies and additional appropriations for the ninth fiscal year, and providing for the issuance of certificates of indebtedness.

The act further provides that in the event of a deficiency in revenues provided for in this act in the tenth fiscal year, there shall be issued certificates of indebtedness of the state of New Mexico, the form of which certificates shall be prescribed by the Attorney General of the state, and provides that such certificates shall be dated the first day of September, 1922, shall be payable within five years from their date and issued in denominations of \$500 each and shall be issued in an amount not to exceed \$100,000.

## STATE OF ARIZONA

*Information furnished by T. H. Reynolds of E. H. Rollins & Sons, Denver, Colo.*

The only two municipal bond laws of importance were the Tax Anticipation Law and the new Irrigation Law.

The Tax Anticipation Law authorizes the state to issue Tax Anticipation Bonds for a period of one year, at a rate of interest not to exceed 8%. The law authorizes the bonds to be sold by the State Loan Commission, consisting of the state Governor, the state Auditor and the state Treasurer. The Commission fixes the terms of the bonds and all conditions of the sale. Bonds are to be issued in anticipation of taxes levied for the last half of the year 1920 and the first half of the year 1921 and cannot be issued in an amount in excess of 90% of the uncollected taxes.

The Irrigation Law is so elaborate and voluminous that we merely call attention to it without attempting to discuss its provisions.

## STATE OF UTAH

*Information furnished by the Chairman of the Municipal Securities Committee.*

Chapter 9 provides for the creation and maintenance by cities and towns of a guarantee fund for the protection of bonds or warrants issued for local improvements. In effect, this act makes all local improvement bonds, general obligations of the city or town within which the improvement is located.

Chapter 19 amends Section 794 of the Laws of 1917 relating to bonds of cities and towns. The law authorizes the payment of the bonds by unlimited taxes. The maximum maturity of bonds issued for waterworks and sewer purposes is forty years, and of all other bonds twenty years. They may be either serial or term bonds. No sale is permitted at less than par.

Chapter 47 amends certain sections of Chapter 41 of the Laws of 1919 relating to the organization and government of drainage districts and the issue of bonds thereby.

Chapter 64 provides for the issue of not exceeding \$1,000,000 state road bonds. The maximum rate is  $5\frac{1}{2}\%$ ; the maximum maturity twenty years. The bonds cannot be sold at less than par. Interest on these bonds is payable out of the motor vehicle license fund, but any deficit is made payable out of the general revenues of the state. \$62,500 is appropriated for the payment of principal each year for fifteen years, beginning in the year 1925.

Chapter 73 amends certain sections of Chapter 68 of the Session Laws of 1919 relating to the organization of water conservation districts and authorizes the sale of bonds by such districts.

Chapter 76 provides for issuing and disposing of state bonds in the sum of \$250,000 for Soldiers' settlements. Bonds are to mature not later than forty years. The maximum rate is  $5\frac{1}{2}\%$  and there is a provision that they cannot be sold for less than par.

Chapter 77 provides for the issue and sale of state bonds to the amount of \$500,000 in payment of the state general fund deficit. The maximum rate is  $5\frac{1}{2}\%$ .

The bonds must mature within twenty years and cannot be sold for less than par. Beginning in 1925, \$31,250 is appropriated each year for sixteen years out of the general revenue fund, to provide for the payment of the bonds.

#### STATE OF WASHINGTON

*Information furnished by Andrew Price of John E. Price & Co., Seattle, Wash.*

The only law passed at the last session of the legislature relating to the issue of municipal bonds was an act removing the limitations on taxation for port districts. The old law provided that the annual tax could not exceed 2% of the assessed valuation, irrespective of the bonded indebtedness. The new law removes this limitation and port districts in the state of Washington now have the power of unlimited ad valorem taxation for any debt legally incurred. There were also a few amendments passed relating to the method of spreading assessments in drainage and other special assessment districts, but this was purely of a local nature.

#### STATE OF OREGON

*Information furnished by Willis K. Clark of the Ladd & Tilton Bank, Portland, Ore.*

The principal laws passed by the 1921 Legislature, in which dealers in municipal bonds might be interested, are as follows:

"An Act to amend Sections 6839, 6846 and 6847, Title XXXIX, Chapter II, Oregon Laws, for the regulation of dealers engaged in the sale of stocks and bonds. This puts all dealers in securities, except banks and trust companies, under the supervision of the State Corporation Commission. Dealers are required to furnish monthly sworn statements showing their financial condition, and dealers issuing interim certificates are required to keep a 100% reserve either in cash or in acceptable securities, against them. Dealers must obtain a license before they can do business, which the Corporation Commissioner may revoke for violations of the provisions of the act.

An Act to amend Section 2758 of Oregon Laws, authorizing the registration of bonds in denominations of \$500 and \$1,000.

An Act providing for the organization of improvement districts of logged-off and burned-off lands, giving such districts authority to issue bonds for improvement of these lands under certain prescribed conditions.

An Act to amend Section 5623 and 5625, Oregon Laws, relating to issuance and sale of rural credit bonds, and giving the State a preferential right to purchase.

An Act creating a State Bond Commission which shall have supervision of all purchases of bonds for the various state funds. The act further provides that this Commission may not purchase bonds of municipalities with population of less than 5,000.

An Act to amend Section 6220, Oregon Laws, by specifying additional securities in which savings deposits of banks having a capital of \$5,000, or over, may be invested. The additional securities include Canadian Provincial bonds, bonds of Great Britain, first mortgage bonds of corporations in the United States under certain restrictions.

An Act to exempt Oregon road bonds from taxation as property providing this exemption should not apply to income received from any investment in such bonds.



An Act to amend Section 7163, Oregon Laws, to provide for the submission to the voters of a port district, the question of borrowing money and the issuance and selling of bonds. To prohibit contracts involving the expenditure of funds raised by loaning the credit of the port district until the raising of such funds may be authorized by the voters of the port, except in cases of emergency, to an amount not exceeding \$25,000, in a period of twelve months, and to prohibit the use of such funds for any other purpose than authorized.

State of Oregon soldiers' bonus bonds. The sale of these bonds has recently been postponed indefinitely on account of a suit that has been filed to test the constitutionality of the act authorizing the bonds.

### STATE OF CALIFORNIA

*Information furnished by R. H. Moulton of R. H. Moulton & Company,  
Los Angeles, California.*

Only one bill was passed by the Legislature of this state, of real importance affecting municipal bonds. This was Assembly Bill No. 714 (being the same as Senate Bill No. 534). This bill provides for the sale of county, city and school district bonds on a 6% basis when the same had been authorized at a lower rate of interest. In other words, all direct municipal obligations, authorized at a lower rate, the sale of which had theretofore been prohibited at less than par, can be sold at a discount not to exceed a 6% net return. The wording of the law was unsatisfactory and an effort was made to have it amended so that it would cover future issues as well as those authorized and unsold at the time of its adoption, but the effort failed. This law is now being contested in a case arising in the city of Los Angeles.

Several other laws were passed, primarily validating acts; also one law providing for the formation of junior college districts and the issuance of bonds by these districts.

The Committee's services in working out defaults, both temporary and otherwise, have been in more constant demand, and it is surprisingly gratifying to find how often we are able to be of real assistance in these matters after the efforts of the interested member have been futile. There seems to be, throughout the entire country, a most wholesome respect for the Investment Bankers Association of America, and in many cases where the officials of the issuing community have shown a disposition to ignore requests for payments, we have been able, by enlisting the aid of local bankers, commercial clubs, merchants or others who have pride in the credit of their community, to enforce prompt payment. This is one of the most valuable services that the Municipal Securities Committee can render and we hope all members of the Association will avail themselves of it whenever the occasion requires.

The use of the facilities of the U. S. Mortgage & Trust Company, as depository for legal papers and opinions, is increasing, but not as rapidly as it should. It is a service which is indeed valuable and should have the full support of the Association's members.

THOMAS N. DYBART, *Chairman.*

*Mr. Dysart:* We will now proceed with the discussion of the following questions:

1. (a) Should a circular show the total amount of bonds authorized when only a portion of the issue has been purchased and is being offered?
- (b) If so, should the financial statement include all bonds authorized, or only those actually sold by the issuing community?
2. (a) When bonds are purchased for delivery in installments and are offered only as delivered, what should the circular show?
- (b) What should the financial statement show?
3. Should the circular show the bonded debt of co-extensive or overlapping political subdivisions?

The discussion will be led by Mr. Wakefield of Minneapolis. These are questions which constantly come up. There was hardly a month during last year that I did not receive a communication from some member of the Association with respect to the set up of the municipal bond circular. I hope you will participate in this discussion. May I introduce Mr. Wakefield?

*Mr. Wakefield* (Wells, Dickey Co., Minneapolis): When I received a letter from Mr. Dysart, asking me to undertake to lead in the discussion of the municipal circular question it occurred to me that all those who are dealers in municipal bonds, and most bond houses to some extent are dealers in such securities, that it would not be difficult to defend the present method of compiling and putting out the municipal bond circular. I think in opening up the discussion it is best to bring to you a statement from a purchaser of municipal securities as to what he thought of the circular which we now present to him, and his suggestion in reference to the circular. In order to do it I directed a questionnaire to a number of the most important purchasers, largely the institutional purchasers of municipal bonds. The replies were almost in every respect fully agreed on this question, and among them was a letter from one of the largest institutional buyers, which laid this matter out in such complete form and in such detail and presents the matter in such a way that it can be easily discussed, and I will take the liberty of reading this letter at this time.

"I am glad to respond to your request for my opinion as to what a municipal bond circular should show, believing, as I do, that circulars should contain all essential facts pertaining to the securities they purport to describe, which, I am sorry to state, they frequently fail to do. For example, why should circulars always set forth in bold type the purpose of issue when it is for water, sewers, schools, court houses or parks, to name a few of what are considered desirable purposes, and omit this display when bonds are issued for highway improvement, purchase or construction of a street railway, or payment of a bonus to soldiers. Again, why should a circular contain the statement, 'the total debt is limited to seven percent of the assessed valuation' and omit the remaining and equally essential part of the law which recites 'exclusive of bonds issued for the purpose of acquiring, providing or constructing school houses, water works and sewers.' In other words, should bond houses state in their circulars 'the truth, the whole truth and nothing but the truth,' or only such part of the whole truth as may, in their judgment, aid the sale of their bonds? This by way of introduction.

"You state that the question you are to discuss at the I. B. A. of A. Convention at New Orleans, is to be divided into three parts, of which Part I, is:

(a) Should a circular show the total amount of bonds authorized when only a portion of the issue has been purchased and is being offered?

(b) If so, should the financial statement include all bonds authorized or only those actually sold by the issuing community?

"Answering the first half of part one of the question, I hold most decidedly that circulars should show the total amount of bonds authorized, notwithstanding the fact that only a portion of the issue has been purchased and is being offered for sale. As an illustration of prevailing practice—A syndicate purchased \$15,000,000 bonds with the knowledge that the amount was part of a total authorized issue of \$50,000,000. No statement to this effect appeared in the respective circulars of the bond houses offering the bonds for sale, and yet one of the syndicate members advertised in a prominent magazine: 'Step into any . . . . . Company office. The latest offerings of well chosen bonds will be put before you, together with the information and facts upon which the company purchased each issue.' This is strictly true. Provided the investor *asks* if \$15,000,000 is the total amount of bonds authorized for this particular purpose, he will be told that the authorized amount is \$50,000,000, but that no further amounts of bonds will be sold probably within the ensuing two years. But the chances are that the question will not be asked and the impression will be left in the investor's mind that \$15,000,000 is the total authorized sum to be expended for road construction.

"Another instance—The Minnesota Laws of 1919, Chapter 265, authorized St. Louis County to issue \$7,500,000 bonds for road purposes, to be sold at intervals in various amounts. The initial sale was \$500,000. No mention in the bond house circular was made of the fact that said bonds comprise a part of a \$7,500,000 authorized loan; and only \$500,000 was included in the total debt, which was correct. I contend that the total amount of all bonds authorized and about to be brought to market should be indicated in a footnote, or otherwise, in the dealers' circular describing the issue offered for sale. If it be held that to give this information might affect the sale of the installment offered, then I contend not to give the

information would be, in effect, deceiving the investor, who should be given, in *the circular*, the same essential information upon which to predicate his purchase, as that upon which the bond house or syndicate acted. Failure to give this essential information should not be countenanced by the I. B. A. of A. whether subsequent amounts of bonds are to come upon the market in the immediate or remote future are questions which the investor can ask if he is interested. The point is that he should be informed of the total amount of bonds authorized and that further issues of bonds are impending.

"My answer to the second half of part one of the question is that the financial statement should show only the bonds actually sold by the issuing community. Provided the circular states, as it should, the total amount of all bonds *authorized*, the investor is in possession of all essential facts upon which to base his decision.

"I think part one of the question should have contained a third section, namely:

"(c) Should a circular show other authorized bond issues of considerable magnitude, by the same community, that are liable to come upon the market in the near future?"

"My answer would be 'Yes' for the reason given in answer to the second half of part one of the question, namely: 'provided the circular states, as it should, the total amount of all bonds, authorized, the investor is in possession of all essential facts upon which to base his decision.' Lest this attitude may be deemed extreme, I cite the recent issues of Michigan Highway and Soldiers' Bonus bonds as follows:

"About May 26, 1921, a bond house syndicate offered for sale \$3,000,000 Highway 5½s, at the same time that the State was inviting sealed bids up to June 15, 1921, for \$30,000,000 Soldiers' Bonus bonds. No mention was made in the circular advertising the Highway bonds of the amount of forthcoming Bonus bonds. July 13, 1921, bond house circulars describing the first installment of \$15,000,000 Soldiers Bonus bonds made no mention of the balance of the bonds unsold, nor did they include the remaining bonds in the total debt, although the syndicate had an option on the remaining \$15,000,000, which option was soon after exercised, and automatically increased the debt \$15,000,000. At the time the first installment of the Soldiers' Bonus bonds was brought out, the State was inviting bids to July 15, 1921, for \$5,000,000 Highway Bonds and Notes. In my opinion, a prospective investor should have had this essential information before him *in the circular* in considering a purchase of the bonds therein described.

"Part two of your question is:

"(a) When bonds are purchased for delivery in installments and are offered only as delivered, what should the circular show?"

"(b) What should the financial statement show?"

"My answer is that the circular should show in the financial statement the total amount of bonds contracted for regardless of dates of delivery, provided all bonds would presumably be delivered and paid for under the contract *prior to a change in the assessed valuation*. Otherwise only such amount of bonds as would be actually delivered under the existing valuation should appear in the debt statement, a footnote calling attention to the remaining bonds to be delivered, which should be included in the debt statement under the new valuation. Part three of your question is:

"Should the circular show the bonded debt of co-extensive or overlapping political subdivisions?

"This question should have been decided many years ago in the affirmative by the logic of the situation with respect to debt statements of school districts and of cities wholly contained within such districts. Essentially the same taxpayers are assessed upon the same property for the payment of both debts which should be stated in every circular purporting to show the debt burden that the citizens bear. If this were not true, all financial statements might properly be eliminated from all descriptive bond circulars, the good faith and credit of the issuing community and the ability to pay being taken for granted.

"An excellent illustration of the proper presentation of the financial status of a community is the following statement from the circular of the Clerk of the Board of Education of the City of Martins Ferry, inviting bids for an issue of School bonds:

"The Martins Ferry City School District comprises the City of Martins Ferry and a small portion of the adjacent territory located in Belmont County, Ohio.

**Total Bonded Debt of School District**

(Including this issue) (no floating debt) .....\$270,000

City of Martins Ferry, total bonds issued \$332,251

Less Sinking Fund..... 127,251

Total outstanding bonds (consisting of Water

bonds) \$134,000, all other \$71,000.....\$205,000

**TOTAL BONDED INDEBTEDNESS OF CITY AND**

**SCHOOL DISTRICT** .....\$475,000

Neither has ever defaulted on any bonds.

Actual Value of Property, estimated.....\$16,000,000

Assessed Valuation of Real Estate, 1916.\$6,631,360

Assessed Valuation of Personal, ..... 4,200,930

Total assessed Valuation year 1916.....\$10,832,290

Tax rate for 1916, \$15.20 on the \$1,000.'

"This advertisement afforded no possibility for oversight on the part of the bond house securing the award, yet only the debt of the School District appeared in the dealer's descriptive circular. With the exception of an excellent circular published by a prominent New York bond house in 1913, I have yet to see a bond house offering of Board of Education bonds that contains the debt statement of the city, or an offering of City bonds that contains the debt statement of a Board of Education operating within the city as a separate political entity; yet it is obvious that if the debt burden of the citizens is to be shown, both debts should be given. It may be contended that if, in offering School District bonds the debt statement of the City, co-extensive with, or within the boundaries of the School District, should be given, then the city's pro rata proportion of the debt of the county in which both are located should be included as well. This, however, would not be necessary, unless the county, city and school district boundaries were virtually co-extensive, in which case all the debt statements should be shown. In my judgment, however, the per capita debt of the county should be shown, and, also the

per capita debt of the state. The proper circular presentation of a city or school district financial statement, on this contention, would be about as follows:

“Real Value of Taxable Property, officially estimated.....	\$125,000,000
Assessed Valuation for Taxation—80% of Real Value.....	100,000,000
Total Bonded Debt, including this issue	\$7,500,000
Less Water Debt, included above.....	3,000,000
Net Debt—4½%.....	\$4,500,000
Board of Education, additional, 2.5%...	2,500,000
Total net debt, 7% of assessed valuation, or \$70 per capita.	\$7,000,000
Population 1920 census, 100,000	

All bonds are payable in annual installments. There is no floating debt. The County debt per capita is \$30. The State debt per capita is \$10.

“Such a statement would clearly show the per capita debt burden of the population of that particular city, namely, \$110, exclusive of the Federal per capita debt of \$200, of which every investor would be, presumably, aware. The necessity for these per capita debt statistics is more apparent now that states and counties, that have heretofore been comparatively free from debt, are incurring such heavy indebtedness for highway construction and Soldiers’ bonuses. You will no doubt have observed that in practically all offerings of foreign loans in this country the per capita debt is featured. The practice might well be adopted in offering domestic loans.

“Every municipal bond issue presented to the Finance Committee of the Insurance Company is accompanied by data substantially as given above; this has been the practice during the past ten years. For the form of presentation, see accompanying offerings of Seattle School District No. 1 bonds and of City of Chicago bonds, which answer the question as to other overlapping political subdivisions.

“A number of the states have enacted laws restricting the municipal investments of the savings banks to communities whose net debt does not exceed a fixed percentage of the assessed valuation. As the basis of assessment is not uniform in the various states, debt per capita is a check upon percentage of debt for comparative purposes. Whether per capita debt, as suggested above, should appear in bond circulars describing local offerings, is an interesting point that should be determined by members at the Convention. The fact remains that possibly the largest investor in municipal bonds in the United States requires this information, as the best practical index of a community’s debt burden, in all municipal investments submitted by the writer to the Finance Committee.

“A circular describing a bond issue by a county, a port, a city or a school district will usually emphasize the low percentage of debt to assessed valuation of the particular political division whose bonds are being offered for sale, although the percentage of the combined debts of the co-extensive or overlapping subdivisions, of which no mention is made, may be excessive. Again, the percentage of debt of the particular division may be small because of an inflated valuation for purposes of taxation. A statement of the per capita debt would be a check against this. Attention is never called in bond circulars to a large percentage of debt for reasons

that are obvious. In common honesty then, attention should not be called to a small percentage of debt when that percentage is fictitious.

"Another practice to which I would call attention is the inclusion in municipal bond circulars of 'estimated' populations, that are frequently ridiculous, as indicating growth unwarranted by fact. The use of the term 'official estimate' does not palliate the offense, as municipal officials are proverbially the worst offenders in the wildness of their estimates. A reprehensible practice is the use of a census a decade old when the recent enumeration, which is omitted, shows a substantial decrease in population. Such practice should subject the offender to severe censure by the I. B. A. of A. as only one interpretation can be placed upon it.

"There is a very serious situation in municipal laxity that should engage the careful consideration of the I. B. A. of A. and that is the cavalier manner in which sinking fund obligations are created. Many municipalities authorize by ordinance or resolution, or are required by legislative enactment, to establish an annual sinking fund for the payment of interest and principal of bond issues at maturity. So far as sinking funds for the payment of principal are concerned they are ignored from the very beginning. A bond house that professes to protect the interests of its clients should assure itself periodically that such obligations are being rigidly observed. If they are being intentionally neglected, or ignored, pressure should be brought to bear upon the offender by the I. B. A. of A., and further credit withheld until the default has been made good. A default in a sinking fund obligation is no less an offense than a default in interest and should be treated as such. The State of New Jersey has enacted admirable laws, for the upkeep of municipal sinking funds for term bonds, that the I. B. A. of A. might well strive to have enacted by other states that are deficient in this respect.

"The foregoing are some of the important matters that occur to me. Should there be others upon which you would like my opinion, I shall be glad to respond upon request".

*Mr. Dysart:* Gentlemen, we are withholding the name of the writer of this letter. It is a very interesting letter, and particularly so because it is written by the manager of the bond purchasing department of one of the largest financial institutions in this country and perhaps the largest buyer of municipal bonds. It represents the critical buyer's idea of what we ought to tell him when we get up a circular offering our bonds. We all know how difficult it would be in the average bond issue to furnish all of the information called for in that circular. Nevertheless there is food for a good deal of thought in that letter and we would like now to have the views and ideas of some of you gentlemen who are interested in this subject.

*Mr. Weil* (Weil, Roth & Co., Cincinnati): In reading the letter that has just been presented there are some very important questions asked. Before we enter into a discussion of the same I would

like to know whether we are going to take up each question separately or shall the speaker cover the subject as a whole?

*Mr. Dysart:* I think that time will not permit us to take up each subject separately, Mr. Weil. They are closely related.

*Mr. Weil:* I hardly think you are going to get the right discussion in that way. I think each question warrants a full discussion if we want to get anywhere as far as municipal discussion is concerned.

*The President:* Mr. Weil, I know everybody will be very much interested in what you have to say and I would appreciate it very much if you would come up front.

*Mr. Weil:* The first question, as I understand it is, and I am going to read the question in order that I can give you my ideas on it, the first question is:

"Should a circular show the total amount of bonds authorized, when only a portion of the issue has been purchased and is being offered? If so, should the financial statement include all bonds authorized, or only those actually sold by the issuing community?"

I agree with the writer of the letter that Mr. Wakefield has just read, that the full amount of the bonds should be shown on any circular. I think it is only fair to the purchaser of any municipal bonds that he should know what amount of bonds have been authorized. That is my personal opinion on Question No. 1.

Question No. 2 is:

"When bonds are purchased for delivery in installments, and are offered only as delivered, what should the circular show? What should the financial statement show?"

I think my answer to Question 1 really covers that. I believe the full amount of the bonds should be shown on the financial statement, even if they are to be delivered in installments.

*Mr. Dysart:* A financial statement is supposed to represent the facts. It is supposed to show the actual debt of the issuing community.

The debt is represented only by the amount of bonds when they are issued, sold and delivered. Would your financial statement then be correct if you included bonds purchased on installment, but which have not been paid for?



*Mr. Weil:* In my opinion it would be correct if you hold the contract for the purchase of those bonds. The community then considers them sold.

*Mr. Dysart:* If I held the contract, yes, but suppose some irresponsible house held the contract. [Laughter.]

*Mr. Weil:* I am going to answer that question by saying that every banker at times makes loans that he considers good and afterwards they are found not to be good. I think the municipality when it enters into a contract for the sale of bonds believes that it is dealing with responsible people, at least they try to get enough of our money to make it an assured fact that you are going to take them up. I am only expressing my personal opinion.

*Mr. Dysart:* I interrupted you only to emphasize that point.

*Mr. Weil:* The third question is:

"Should circulars show the bonded debt of co-extensive or overlapping political subdivisions?"

I disagree there with the writer of the letter that Mr. Wakefield read for this reason and I am going to cite our home county, Hamilton county, and there are practically similar laws in existence in many states. I can't say that there are in all states, but you take Hamilton county, and they make a budget yearly. The budget is made by a committee of three men appointed to draw up that budget. After the budget has been arrived at, a certain amount of money has been determined that must be raised and a tax certificate agreed upon, then that money is divided among the various political subdivisions. Now each political subdivision receives a certain amount of money to run its affairs. Whether the school district receives more than the city or the county receives more than the city, that is a matter for the budget committee to decide, but each political subdivision has its own official body to conduct its affairs, and in conducting its affairs they put in their requisition for a certain amount of money to run that.

Now I think from the taxpayer's standpoint it is only fair that he should be acquainted with what amount of taxes he must pay, in other words what the total taxes are that have to be paid for that community, but when you furnish the purchaser of a bond a statement showing the total indebtedness of the city or of a school district or of a county I believe you are giving him honest information and it is unnecessary to put on your circular that Cincinnati

has an indebtedness of 25 million dollars, Hamilton county 15 million dollars, the school district 20 million dollars, the township 10 million dollars, and so forth, because each political subdivision has its own official body and puts in its own requisition for what is needed to run its affairs and they are a separate corporate body. Now that is my answer to question No. 3 which I really believe covers the letter as presented, or is there another question in there?

*Mr. Dysart:* They are the only questions to be discussed.

*Mr. Weil:* I have just given my personal opinion, and I would like to hear from some of the others. [Applause.]

*Mr. Bertram* (Davies-Bertram Co., Cincinnati): My opinion is that where a bond house puts out a circular, where the bonds are authorized, that in the financial statement they should put the amount that they are selling and at the same time put in a footnote the amount authorized. That is practically on the same lines of a corporation saying that bonds authorized are so much, stock authorized so much, outstanding so much. That puts the man in touch with the actual amount of debt that they have at the particular time, regardless of what they intend to put out, three or five or six months later. On the other hand, if a house has a contract to purchase a million dollars worth of bonds, and has an arrangement whereby they take them up on the installment plan, I think that that entire debt should be shown in that financial statement, because it is only a question of time when they are going to bring them out. The idea of putting on what he is offering at the present time is a sort of camouflage. As far as the bonded debt of coextensive or the overlapping political subdivision is concerned, that is a matter of very broad discussion. It would require a great deal of data to offer a school district bond and go into details, especially if there is an important town in that school district to show what the taxes are of that particular town, and what the taxes would be of the entire school district. The same way with a road district, and I would not want to give any opinion as to what would be the best plan to proceed on along those lines. I thank you, gentlemen. [Applause.]

*Mr. Dysart:* Has any one else any opinion to express?

*Mr. Hoystradt* (Stacy & Braun, New York): On the question of the financial statements it would seem to me the vital thing to

do is to avoid any ambiguity. If you offer an issue of school district bonds, I have always maintained that in the financial statement you should show the financial statement of the school district. It does not seem to me that it is necessary to go out of your way to tell the whole story about co-terminal debt. It is not essential to go out of your way to tell a lot of facts which the investor himself should investigate. I think a whole lot of it should rest on the investor, as Mr. Dysart said, the responsibility of it should rest on the offering house, but it seems to me it is not absolutely necessary that you should give all the facts about the debt of the city, the floating debt, and things of that sort. It would seem to me to be a little bit up to the investor himself to investigate a little bit and if he does so any responsible house is always willing to tell him all the facts he wants to know.

*Mr. Palmer* (Palmer Bond & Mortgage Co., Salt Lake City):

At the risk of a slight digression, I was very much interested in one feature of the letter which was read and which, I think, should require action on the part of the Association, and that is the question of laxness in sinking funds. I think the average public official is always willing to get the money and spend it and leave to succeeding administrations the levy of the taxes to pay the debt. The result is that where we have sinking fund bonds the debts are piled up for not only future years but future generations, and that the members of the Association, when there is laxness in the levying of the sinking fund taxes should see to it that the forces of the Association be brought to bear on the proper officers of the cities in the levying of the sinking fund.

[Applause.]

*Mr. Spitzer* (Sidney Spitzer & Co., Toledo): I think that we have all gotten in the habit of abbreviating the information given in our financial statements. It is the understood purpose, on account of our men that go out offering bonds, to try to get the information in as brief form as possible so that they can carry it around in a pocket wallet, but nevertheless, we should give as much as we can, but when it comes to giving statements of overlapping taxing bodies for instance, in certain states where you will find a road district, a sanitary district, a school district, a bridge district, a water district, an irrigation district, and a pro-

portionate amount of state, county, and township, as well as city debt per capita, it would seem as though it is going a little bit too far for the average bond house to have to furnish to the average investor who buys bonds. For these institutions who require this information—and most of us know of them—of course we have to furnish as much as we can, but in many cases it is impossible to get accurate information from the officials themselves, and even if we did it would entail an organization much larger than the average bond house is capable of carrying, and while I think most of the bond houses go into these things themselves—and they should—for the purpose of determining the ratio of debt—whether it's a safe obligation or not—but, when it comes to passing these out and furnishing it to the average investor or institution it seems altogether too cumbersome. If we went on record as doing in as minute a detail as a good many of these institutions would like to have, why, we would be a lifetime in getting certain issues of bonds ready for market. [Applause.]

*Mr. Dysart:* The Municipal Securities Committee, and in fact several of the other committees, have been very active in Washington in connection with the efforts of Congress to pass laws or to propose constitutional amendments to permit the taxation of income from municipal bonds. That is a very important subject, and in lieu of the second division of the discussion of our committee I will ask Mr. Clarkson Potter to inform you of the progress made at Washington in connection with this amendment.

*Mr. Potter* (Wm. R. Compton Co., New York): I think everyone is familiar with the stand that the Association took over a year ago with reference to the exemption from taxation of municipal obligations, and also Federal obligations and instrumentalities. The conclusion reached was that the Association has approved of the principle of taxation of income from federal and municipal obligations. That was approved at the convention last year, and stands as our problem. There have been efforts made to produce a bill or resolution which will accomplish the purpose being sought, recognizing the evil which now exists or the unfairness which now exists in the ability to escape taxation on the part of the wealthy class of people, by investing their funds in non-taxable securities, thereby adding to the burden of taxes of the smaller taxpayer or the smaller man as far as wealth is concerned.

Congressman McFadden has done a great deal in drafting or framing a bill which might meet this situation. The members of the board of this Association, and the members of several committees have conferred with Congressman McFadden and the point was reached some weeks ago where it was more or less generally agreed that while some progress had been made, no satisfactory plan had been proposed at this time. I took this matter up with a former official of the Treasury Department, and the Assistant Treasurer and after a discussion with him, I went to Washington and took it up with the Treasury Department. As a result of my trip, and my discussion with them and further discussion with the members of the Board since, I am at liberty to read to you a letter, which the Secretary of the Treasury has written to Congressman McFadden, who is the chairman of the committee on banking and currency of the House of Representatives. The letter as far as I know has never been made public, but I have the Treasurer's permission to discuss it freely and they will welcome a discussion of it by the Association as it has already been discussed by the Board. The letter contains at the end a resolution embodying a proposed amendment to the constitution, which, subject to two minor changes meets the view point of the Treasury Department at the present time in connection with this subject. The letter is dated September 23.

SEPTEMBER 23, 1921.

"MY DEAR MR. CHAIRMAN:

"I received your letter of August 27, 1921, enclosing a copy of H. J. Resolution 102, which proposes an amendment to the Constitution of the United States restricting the issue of tax-exempt securities by the Federal Government and States and municipalities, and have noted your request for my opinion with respect to this resolution and the subject in general.

"As you know, in my letter of April 30, 1921, to the Chairman of the Committee on Ways and Means, a copy of which I enclose, I recommended to Congress that it consider the advisability of taking action by statute, or constitutional amendment where necessary, to restrict further issues of tax-exempt securities. The ever-increasing volume of tax-exempt securities (issued for the most part by States and municipalities) represents a grave economic evil, not only by reason of the loss of revenue which it entails to the Federal Government but also because of its tendency to encourage the growth of public indebtedness and to divert capital from productive enterprise. The issue of tax-exempt securities has a direct tendency to make the graduated Federal surtaxes ineffective and nonproductive because it enables taxpayers subject to surtaxes to reduce the amount of their taxable income

by investing it in such securities; and at the same time the result is that a very large class of capital investments escape their share of taxation.

"Of course, the voluntary withdrawal of the tax exemptions from securities to be issued by or under the authority of the Federal Government would require no constitutional amendment, but to do this as to Federal securities alone would unjustly discriminate against the National Government and leave a clear field for the State and local governments. In general, moreover, the policy of the Federal Government has been not to issue its own obligations with exemptions from Federal surtaxes and excess-profit taxes, and the great bulk of the Liberty Loans and other war debt have no such exemption. As to State and municipal securities, I assume it is clear, since the decision in *Evans vs. Gore* (253 U. S. 245), that the Sixteenth Amendment does not permit the Federal Government to tax income derived from State or municipal securities and that the only effective means of restricting the further issue of tax-exempt securities by State or municipal governments would be by constitutional amendment. Such an amendment would doubtless meet with considerable opposition on the part of the States, and for that reason, as well as from considerations of equality and fairness, it is the better view, I should say, that any restrictions on the further issue of tax-exempt securities should be mutual and should apply as well to securities issued by the Federal Government as to State and municipal securities. It is important, however, not to lose sight of the real basis for the existing constitutional principle under which securities issued by the State and municipal governments are now held free from taxation by the Federal Government, and Federal securities from taxation by State and local authorities, and at the same time to provide proper safeguards against any possible discrimination in taxation by the Federal Government against State and municipal securities or by the State governments against Federal securities. It is also important, in order to avoid any question of bad faith, that the amendment should not apply to outstanding issues which now enjoy tax exemptions. For these reasons, I think that some modifications of H. J. Resolution 102 are desirable.

"In the first place, I think that the resolution should be so modified as to make it perfectly clear that the right of the Federal Government to tax the income derived from State and municipal securities and of any State to tax the income derived from Federal securities, shall exist only to the same extent that each government taxes the income derived from its own securities. This would prevent any discrimination by either government against the securities issued by the other. In the second place, it is noted that while the first part of the resolution subjecting the income from securities issued by State and municipal governments to taxation by the United States applies only to securities issued after the ratification of the amendment, the proviso subjecting the income from securities issued by the United States, its possessions and territories, to taxation by the United States is not similarly limited. Such limitation is, of course, necessary. Furthermore, the language of the proviso subjecting income from issues of Federal securities to taxation by the several States is not expressly limited to the income derived from securities held by residents of the State and should be modified so as to avoid any possible interpretation which would allow a State to tax the income derived from Federal securities not held within the State.

"I might also suggest that the language of the amendment be made broad enough to include all securities issued by or under the authority of the Federal Government or of any State. This would apply, for example, to securities issued by Federal Land Banks and other so-called instrumentalities of the Federal and State governments, which might not be considered as coming within the terms of the resolution as it now stands.

"In this connection I am taking the liberty of enclosing a draft of a proposed amendment to the Constitution along the lines of H. J. Resolution 102, modified as I have suggested.

Very truly yours,  
(Signed) A. W. MELLON, *Secretary*.

"HON. LOUIS T. MCFADDEN,  
Chairman, Committee on Banking and Currency,"  
House of Representatives.

### JOINT RESOLUTION

Proposing an amendment to the Constitution of the United States:

*RESOLVED by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article be submitted to the legislatures of the several States, which, when ratified by the legislatures of three-fourths of the States, shall be valid and binding as a part of the Constitution of the United States:*

### ARTICLE XX.

*The United States shall have power to tax incomes derived from securities issued after the ratification of this article by or under the authority of the several States to the same extent that incomes derived from securities issued after the ratification of this article by or under the authority of the United States are taxed by the United States. Any State shall have power to tax incomes derived by residents thereof from securities issued after the ratification of this article by or under the authority of the United States to the same extent that incomes derived by residents of such State from securities issued after the ratification of this article by or under the authority of such State are taxed by such State.*

*The President:* Gentlemen, at the January meeting of the Board of Governors, the McFadden resolution came up for discussion and in accordance with the instructions of the Board a committee of five, consisting of the Chairman of the Legislative Committee, the Chairman of the Taxation Committee, the Chairman of the Municipal Securities Committee, the Chairman of the Washington Committee, and the President were appointed a special committee to consider this matter. The committee has had a number of meetings, but has reached no final conclusion, and I

might say is not ready at the moment to reach a final conclusion, as to the particular form of the amendment, or rather as to the particular criticisms which should be directed to the amendment. The Board desired that the letter be brought to the attention of the convention as a report of progress in the matter and on behalf of the Board I would like to have all the criticisms of the letter and of the amendment in writing addressed to Mr. Dysart as Chairman of the Municipal Securities Committee. There are several copies of the letter so that anybody that desires to have a copy of it may do so. I think it is a very technical matter which requires a great deal of critical study. The committee in charge of this matter brings it before you at this time, for the purpose of getting your criticisms or suggestions in regard to it, but we desire to have those in writing, so that the matter may be taken up at the next meeting of the Board. The Board at its meetings, which took a recess at 1:00 o'clock this morning, decided to meet again at 5:00 o'clock this evening, it is now ten minutes past five, but we have on our program the report and discussion of public utility matters. We do not intend to adjourn at 5:10, but we intend to go right on through until half past five. We cannot finish this part of the program at that time, but we will have it at nine-thirty sharp tomorrow morning. Mr. Addinsell, the chairman of the Public Utilities Committee is not able to be present, and we have asked Mr. Peirce of San Francisco to present Mr. Addinsell's report in outline as the report has been printed and is being distributed. We want as much discussion as we can get this afternoon, and we will continue the matter until tomorrow morning.

*Mr. Peirce* (Cyrus Peirce & Co., San Francisco): Mr. President and Gentlemen, there are two things which have come up in the last forty-eight hours that are not mentioned in the report and I have been asked by the Board of Governors to take them up here. They are vital to the public utility business. Every man who sells utility bonds should go into this question. We are not going to be able to take up both of them tonight, but we will take up one of them tonight and one of them tomorrow morning. I won't read the report because it is printed and in your hands. The summary is very short and is as follows:



## SUMMARY PUBLIC SERVICE SECURITIES REPORT

A brief resume of the Public Service Securities report follows:

The past year of general business depression has accentuated the inherent stability of public utility businesses as a class. It has witnessed a more and more universal adoption of the Series Mortgage idea introducing without disadvantage from the point of view of the investor a flexibility from the point of view of the company in availing itself of its principal means of major or mortgage finance. The Series Mortgage makes available to the company its prime security with a face rate and a maturity to meet existing market conditions. The past year has also been marked by a more general adoption of the No Par Value Stock Plan which introduces a similar flexibility with respect to the sale of junior securities.

The policy of selling public utility stocks by the utilities direct to their customers has been further developed and carried out. With the obvious advantages of this plan you are already familiar but a note of warning should be sounded in connection with the sales of such stocks to customers and employees. The customer should not be asked to pay more than the general market for the class of security offered him. The stock should be sold on a complete set of the facts and weak securities should not be gilded over with generalities. Moral considerations should preclude these practices, but if indulged in the inevitable reaction will be disastrous to the future development of this important and desirable means of supplementary finance.

The utility associations have taken up the matter of having the public utilities placed in a special class for taxation purposes and have also taken the position of opposing the issuance of any tax-exempt securities. That is, of course, a matter of great importance to utilities from the point of view of the cost of money to them and to the investment bankers from the point of view of the breadth of the market for public utilities. I assume that your Legislative Committee's report will cover in detail the various phases of this broad subject so will not go into it further here.

The practicability of the new Federal Power Commission Law is indicated by the fact that up to June 30, 1921, the Commission reported that there had been filed with it applications aggregating 14,675,000 H. P. This amount is 75% greater than the entire water power development of the United States today. Thirteen preliminary permits have been issued and fifteen licenses, making an aggregate of twenty-eight projects involving 2,292,000 H. P. or as much as was issued by all of the executive departments during the ten years preceding the passage of the Federal Water Power Act. The foregoing illustrates the important extent to which the Act will release and is already releasing heretofore undeveloped water power with all the obvious accompanying advantages. There remain to be worked out, however, several important details for the application of the Act. The regulations in effect have not met with the entire approval of the leading men in the industry and do not seem to be workable, especially with reference to the accounting rules and the basis for determining when amortization of the investment begins. The National Electric Light Association has requested

a hearing before the Federal Power Commission on these points in the near future and it is hoped that a satisfactory solution will shortly be arrived at.

Super-Power Survey of the United States Geological Survey has made an exhaustive investigation of the advantages to be derived from further coordination and interconnection of existing power facilities throughout the country, and of the construction of so-called super-power plants to serve a wide area which may embrace several different companies. The Super-Power Survey report is not yet available but from the point of view of our Association it will doubtless contain much interesting information and the working out of any plan along this line will necessarily involve the solution of complicated financial problems.

In the electric railway field the American Electric Railway Association figures show that in over 85% of all the cities in this country of over 25,000 population, fares are now being charged ranging from 6c to 10c. Among the ten largest cities of the country, New York is the only one which still retains the 5c fare. The street railways are "coming back" but to overcome the bad financial advertising of the past few years will take time. It can be expedited by revamping top-heavy capitalizations and securing service-at-cost franchises.

The gas industry continues to show the increasing sales of cubic feet of gas from year to year. The heat value standards for gas have largely supplanted and should supplant the candle power standards as gas is now used almost entirely for fuel, largely for domestic purposes but with a steadily widening use in industry.

Commission regulation is steadily becoming more firmly established as a permanent institution. The matter of the basis for valuation of public utilities is one that is being studied by one of our sub-committees and will be the subject of an interim report later on.

I submit herewith a list of questions that you may think it worth while to discuss at the convention and regret very much my inability to be present to present this report personally and to take part in the discussion.

Very truly yours,  
H. M. ADDINSELL, *Chairman*.

#### QUESTIONS FOR DISCUSSION IN CONNECTION WITH THE REPORT OF THE COMMITTEE ON PUBLIC SERVICE SECURITIES

1. What can be done to assist in the restoration of street railway credit?
2. What can be done to make local issues of utility stocks by the utilities meet the market, considering both quality and yield?
3. Does the present tax exemption of municipal bonds encourage municipal ownership?
4. Is it possible to establish a uniform method of valuing public utilities? If so, what is the right basis?

## REPORT OF COMMITTEE ON PUBLIC SERVICE SECURITIES

The past year of general business depression has accentuated the inherent stability of public utility business as a class. The tremendous industrial activity of 1920 greatly increased the demands on the utilities, which were called upon to expand their facilities for service to an unusual degree. But it was an orderly expansion. There was no such peak of production as was the case in the industrial field. On the other hand, when the depression set in there was not the same drastic falling off in gross receipts.

Both periods, of course, brought their problems. After the war interest rates were high. Prime mortgage securities could be sold only at such prices as would yield the investor an income of 7% and more. This, of course, made it rather embarrassing for a company which, faced by large additional demands from its customers, had to raise money for additions and extensions but had nothing to raise it on except the 5% bonds authorized by the open end mortgage it had drawn up before the war. It was imperative that the extensions and additions be built and built quickly. The Commissions demanded it; also it would have been bad business not to satisfy the urgent needs of good customers. In some cases the problem was solved by issuing 7½% and 8% notes secured by a larger face amount of the 5% bonds.

This, however, was an obvious make-shift and the situation was not really met until the details of the so-called Series Mortgage had been worked out. This type of mortgage contains all the safeguards to the investor found in the best open end mortgages of the pre-war period, but in addition provides that bonds may be issued in various series bearing such interest rates and due dates as the directors may deem advisable. This makes it possible for the company always to have available against its needs for money for additions and improvements, prime securities which will meet the demands of the market in which they are to be sold.

Unfortunately even this does not solve the whole problem. One of the most important of the safeguards to the investor contained in modern mortgages is the provision that bonds may be issued only against a certain proportion of the proposed additions. This proportion is generally 75% or 80%. Thus a large amount of money still remains to be raised from the sale of junior securities. Debenture financing is always expensive and is rarely satisfactory, though it may be used as a temporary expedient in times of emergency. The greater part of this money must, therefore, be raised by the sale of stock.

Right here there comes another serious difficulty. Many states have a law which forbids companies to sell their stock at less than par, but if a company must pay over 7% for the money it raises on its mortgage securities, how is it to sell at par a 6% or 7% preferred stock? The answer is obviously that it cannot and the very difficult situation that has been thus created has finally made legislators in many states consider seriously a plan which economists have been advocating for over a quarter of a century, that is the issuance of stock of no stated par value. The advantages of this plan are manifold. The shares, like any other shares, are worth exactly as much as the property behind them is worth, but they bear on their face

no misleading statements as to their value. Consequently such stock cannot come under the above legal restriction and the company can sell it in any market on the same basis which is then current for other securities of the same intrinsic worth. New York has had a no par value law since 1912. Since that time other states have followed New York's lead and many states now have such laws on their books while similar measures are pending before the legislatures of several others.

### THE LOCAL SALE OF PUBLIC UTILITIES SECURITIES

In this Committee's last annual report, mention was made of the success which many utility companies were making in the sale of large amounts of their preferred and even their common stocks direct to customers and employees. At that time there were pointed out the manifold advantages of such local distribution of a company's securities. In the first place a new security market of by no means inconsiderable proportions is opened up. It has been estimated that since the plan was first adopted about seven years ago over \$100,000,000 has been added to the capital of public utility companies from this source. Probably a still greater benefit is the good will obtained. The relations of the company with its public and with its employees are greatly improved. The manager of the publicity department of one company which has accomplished much in this connection stated recently:

"Specific instances of improved public relations are many, including a remarkable history of rate increases, the majority of which were obtained without controversy by simply showing the facts. We hear little or nothing of municipal ownership any more at properties where we have home-shareholders."

It should, however, be borne in mind that in undertaking the sale of its own securities, a company assumes certain duties and obligations toward the purchasers of those securities. These purchasers, it must be remembered, are mostly people of comparatively small means who are not accustomed to scrutinizing carefully or judging the merits of investment opportunities. To them the utility company has always seemed a financial pillar of strength. In many cases they have considered it, in spite of published figures to the contrary, a veritable gold mine to its owners. To them, the opportunity to buy this stock is an opportunity to share in profits that they have always considered absolutely certain. A careless or unscrupulous company might, in some cases, sell stock that had no real value behind it. This would be a most dangerous practice. Not only would such a company be running the risk of losing the confidence and respect of its local public, but it would be getting back to the same old condition of inflated capitalization which proved so disastrous in the past. It is thus plain that stock which a company expects to market direct should be issued under the same conservative restrictions which would be demanded if the issue was to be made through investment bankers. It should represent actual investment in the property and the price should be in line with the current quotations for securities of a similar class.

### COMPETITION FROM TAX EXEMPT SECURITIES

Tax exempt securities have a direct bearing and restraining influence on the marketing of gas and other utility securities and this is a matter which is now receiving considerable attention. Mr. Philip H. Gadsden recently appeared before the House Ways and Means Committee on behalf of the three large utility associations and urged that public utilities be placed in a special class for taxation purposes and also opposed the issuance of any further tax exempt securities. It has been estimated that there are \$7,000,000,000 par value of tax exempt securities issued by state, municipal and school governments now outstanding. The continued issuance of tax free bonds of local governments carrying high rates of interest is attracting investors to the detriment of investments offered by private enterprise and agitation for limiting the tax exempt borrowing power of local governments is growing. In public utility circles sentiment is increasing to prohibit the further issuance of tax exempt securities.

### DEVELOPMENT OF WATER POWERS UNDER THE FEDERAL POWER COMMISSION

One of the most important and interesting developments in the power generating field is the progress that is being made toward the development of water powers on navigable streams, on public lands and on the forest and other reserves. This development has been made possible by the Federal Water Power Bill, which was discussed at some length in the last annual report of this committee. The law provided in brief for the acquisition by private corporations of title to water power sites in the form of fifty-year permits upon declared conditions and revocable only by legal proceedings and for repayment of the net investment if the license is not renewed. The law did not contain the impracticable and unnecessary provisions for arbitrary control by government officials (including the absolute power of revocation) which were features of previous laws and of much proposed legislation making the financing of water power enterprises impossible.

The enactment of this law has met with tremendous response from people who seem to be willing to take the responsibility for the development of the potential power made available. Up to June 30, 1921, the Commission reported that there had been filed with it applications aggregating 14,675,000 H. P. affecting 33 states, the District of Columbia and Alaska. This amount is 75% greater than the entire water power development of the United States today. It is 50% greater than the combined water power resources of Norway and Sweden and considerably in excess of the combined resources of France and Italy. It is five times greater than the aggregate of all applications with the federal government in the preceding fifteen years. The projects applied for vary in size from less than 100 H. P. up to the 3,000,000 H. P. scheme of the Southern California Edison Company on the Colorado River.

It may be said that the chief present defect in the act is its failure to provide adequate means for its expeditious administration. In creating the Commission and putting upon it duties many times greater than had been exercised previously by any executive departments in connection with the water power development,

Congress gave the Commission no personnel to perform its work other than its executive secretary and engineer officer. In an effort to function at all, it has been necessary for the Commission to borrow from the several departments personnel for its Washington office. It has no field force, loaned or otherwise, but must rely, for examinations and reports upon applications and for the conduct of hearings, upon field officers of the several departments, men who are primarily responsible for their own departmental duties.

In spite of this serious handicap under which it has been obliged to work, the Commission has accomplished many things in the first year of its operation. The law under which it acts is complicated and great care was necessary in the preparation of rules and regulations for its administration. The first ten regulations covering the requirements for applications were issued on September 8, 1920; the remaining ten covering maintenance and operation of project property, rental charges, depreciations and amortization reserves, allocation of earnings and accounts and reports were issued on February 28th, and later revised and reissued on June 6th.

The regulations now in effect have been under discussion by the leading men of the water power industry and are not yet in many particulars satisfactory and workable, especially with reference to the accounting rules and the basis for determining when amortization of investment begins. The present regulations, require that amortization of capital shall commence when the rate of return on the property has reached one and one-half times the weighted average true interest rate upon the Company's indebtedness. A more logical basis would seem to be to have amortization start after earnings equal a certain reasonable and proper percentage of the value of the property taken as a whole and not based on the interest rate of the bonds. The National Electric Light Association has requested a hearing before the Federal Power Commission on these points in the near future and such hearing will probably be held next Thursday or Friday. It is to be hoped that a satisfactory solution will shortly be arrived at.

In the meantime the issuance of permits and licenses has gone forward.

The first license was issued on March 1st to the Niagara Falls Power Company. Between that date and July 1st, final action has been taken on 47 applications. Thirteen preliminary permits have been issued and fifteen licenses, making an aggregate of twenty-eight projects, involving \$2,292,000 H. P. or as much as was issued by all of the executive departments during the ten years preceding the passage of the Federal Water Power Act.

There is, of course, no possibility of immediate development of all the projects applied for. The market could not absorb the power even if the construction could be financed. But at least there is now available a practical method for a progressive development of water powers, which may be undertaken as rapidly as financial conditions and market requirements will warrant. After many years of obstruction on the part of so-called conservationists, the country has now adopted a program for the real conservation of our exhaustible fuel supplies by throwing upon the indestructible and self-renewing water powers the production of large amounts of motive power.

## SUPERPOWER SYSTEMS

Closely allied with the movement for conservation of fuels by development of new water powers, is the movement for conservation through the more efficient use of facilities already in operation. The average individual power generating company has to maintain a reserve of approximately 25% in order that it may be able to meet unusually high peak loads. But if a number of such individual companies be interconnected, the proportion of the total capacity held in reserve can be greatly reduced, for it is highly improbable that the full capacity of all the individual units of the new system will be called upon at the same time. The United States Geological Survey, under the special direction of Congress, has been engaged for the past year and more, in a survey of the power resources of the Atlantic seaboard between Boston and Washington, studying the practicabilities and advantages of such a co-ordinated super-power system, under a plan which would interconnect existing generating facilities of the great power companies in that region, and in addition provide for the construction of hydro-electric works and steam plants at the coal mines. The report of this Superpower Survey has not yet been published. Certain preliminary estimates were made public last Spring in which was pointed out the enormous coal saving which could have been effected in this zone during 1919 if the facilities, which are proposed, had been in existence at the time. The savings would have amounted to 4,300,000 tons for the utilities, 9,568,000 tons for the railroads, and 11,000,000 tons for the industries, a grand total of 24,868,000 tons. If similar figures were available covering all the important industrial sections of the country, the total figures would probably be many times that amount.

Before such plans can, however, be put into practice, there still remain many problems to be solved, physical, legal and financial. It may be said that to a certain extent, the welding of individual systems into super-power systems is already taking place in many localities. Some of the great companies on the Pacific Coast that have made such strides in the development of California's water powers can even now be considered super-power corporations without too great stretch of the imagination. The experience that has been gained there and elsewhere in the combination of a number of smaller systems into one great system, will undoubtedly be a value to those who will in the future plan similar projects. The whole question is one which is of great interest to the investment banker, and one in the solving of which will undoubtedly play a leading part.

## THE ELECTRIC RAILWAY SITUATION

During the past year the electric railway situation has shown decided improvement. The facts have proved the truth of the statement that adequate traction service is indispensable to the comfort, convenience and prosperity of any important community. To most of us this principle is self-evident, but in some cases it has taken an absolute breakdown of the system to bring it home to short-sighted politicians who had been exploiting their local companies for selfish purposes. Other communities have profited by the example of their less fortunate neighbors and have lightened their companies' burdens before the breakdown

came. In still other instances the situation has been solved by the interposition of a state commission.

The measures for relief have been various. There have been a few instances in which the city has taken over the roads from the company, usually giving in exchange, mortgage bonds on the system. This sort of transaction does not, however, in and of itself, solve the problem; it merely transfers to the city the responsibility for making the system self-supporting in the face of excessive wages, high commodity prices and jitney competition. Undoubtedly some municipal authorities will try to take the easiest way out and make up from the city treasury losses caused by a popularly low fare, but it is highly improbable that the taxpayers will allow such an experiment to be long continued.

The steps taken in various communities have, of course, differed in accordance with the needs of each situation. In the first place, there has been a more or less general raise in fares. A summary compiled early in the year from figures supplied by the American Electric Railway Association showed that the traction companies in over 85% of all cities in this country of over 25,000 population were, at that time, charging fares which ranged from 6 cents to 10 cents. Among the ten largest cities of the country, New York was the only one which still retained the 5 cent fare. Many companies have obtained relief from burdensome paving obligations and other forms of special taxes. In particular, it is becoming generally recognized that unregulated bus competition is not only unfair to the street railways, but is in the long run, positively detrimental to the best interests of the public. There is of course, a legitimate field for the busses. Used properly their flexibility makes them most valuable as feeders to bring to the car lines riders from sparsely settled outlying districts that are just opening up. This function they can probably fulfill most efficiently and economically when operated as an integral part of the railway system; at the very least, they should be subjected to the same control as are the other transit facilities in the community. It is most gratifying to note that many states, notably Connecticut, have taken a firm stand in putting all public carriers under the Public Service Commission and requiring all such carriers to secure a certificate of convenience and necessity before beginning or continuing operation.

None of these remedies, however, will cure an over-capitalized company. Such situations must be cleaned up from their very foundation. In these cases, an actual valuation should be made and the capitalization of the company adjusted to a real basis of the property's worth. A new franchise should be obtained embodying such provisions as are necessitated by the needs of the particular situation. Enlightened opinion is coming more and more to favor the so-called service at cost franchise which provides machinery for adjusting the rate of fare to insure an income sufficient to provide for all operating expenses, adequate maintenance and depreciation and the interest and dividends which represent the wages paid to capital actually invested in the business. In what is possibly its best form the service at cost franchise provides also for a premium on efficient management in the form of a rate of return becoming progressively higher as fares are reduced.

In addition certain factors in the general economic situation have been of material assistance to electric railways. There has been a slight but actual reduction in wages. It is estimated that the average wage index in August, 1921,



was \$18 as compared with the peak of \$32 in September 1920, and 100 in 1913. To the railways with their large bills for platform labor, this has been a material saving. For example, it is estimated that the recent 10% cut in the wages of the employees of the Interborough Rapid Transit Company means a reduction of \$2,000,000 in that road's operating expenses during the coming year. A particularly encouraging feature of this wage reduction is that, for the most part, it has been effected by individual negotiations on the part of each road and without great friction. This can only mean that the employees are taking an added interest in the welfare of their companies which may prove to be a deciding factor in the avoidance of future labor troubles. Reduction in the cost of materials has not been so general. Particularly in manufactured articles, such as cars and car equipment, it has almost been negligible, but in some materials which have a very general use, such as copper, the decreases have been marked.

### THE NEW YORK TRANSIT COMMISSION'S PLAN

On account of the very size of the New York traction system the problems of its various component companies have attracted very general attention throughout the country. These companies had to face the same problems of war increased operating expenses and short-sighted political oppression as did the electric railways throughout the rest of the country. But unlike the railways in most of the other important cities, they have thus far been able to obtain no relief in the form of higher fares. In this case, furthermore, the tremendous numbers of people affected and the exceptionally long distances to be traversed made the impending break-down exceptionally serious. After the elections last fall the new Governor, recognizing this fact, appointed a special Transit Commission to study the problem of rehabilitating the system and to direct a re-organization.

This Commission after a year of careful study has recently announced its plan. The plan is too long and too complicated for a detailed statement of all its ramifications to be given here, but the following summary prepared by the Commission gives a very fair idea of the general nature of the proposition:

- (a) Municipal ownership of all railway lines in the City of New York;
- (b) The surrender by the companies of all existing franchises, including perpetual franchises;
- (c) The elimination of all existing agencies as factors in the transit situation;
- (d) The unification of the entire transit system, with a Board of Control, three members to be appointed by the Mayor, three by the investors and a chairman to be selected by the two groups;
- (e) Operation to be carried on by three operating corporate agencies to be created for the purpose;
- (f) Genuine home rule by the city in the administration of its transit affairs;
- (g) The elimination of stock speculation in transit facilities, by the elimination of stock;
- (h) An honest valuation of all properties to be taken over by the city;
- (i) Payment of such property to be made on the basis of such valuation, irrespective of present capitalization and book values;

- (j) Municipal ownership to be acquired without outlay by the city, by retiring the purchase bonds, out of revenues of operation;
- (k) No increase of fare unless operation under the new conditions demonstrates its necessity;
- (l) Rates of fare to be based on actual cost and automatically determined by the amount of a contingent reserve or "barometer" fund;
- (m) Substantial economies in operation of the unified systems through consolidation and the elimination of the numerous leasing and operating companies, with their unnecessary duplication of overhead, separate traction policies and independent purchases;
- (n) Consolidation and unification of power facilities;
- (o) The elimination of preferential payments to existing companies and the placing of the city's rights on the same footing with those of other interests;
- (p) The assurance of a fair return on securities of the new system;
- (q) The re-establishment of free transfers as rapidly as the financial condition of the new system will permit;
- (r) The increase of the city's debt-incurring capacity so as to permit new subway construction;
- (s) Proper and adequate service to the public;
- (t) The rehabilitation of required lines, and the elimination of obsolete facilities;
- (u) Participation by operating personnel, as well as new security holders in surplus profits resulting from efficient management and operation;
- (v) Useless or broken-down lines not needed in the public service, not to be included in the system;
- (w) Abolition of the Transit Commission upon the full establishment of the plan.

A large proportion of these recommendations will probably meet with the approval of the majority of those concerned. It is very generally agreed that the service at cost franchise, in which adequate allowance is made for rewards for efficient operation, is from the point of view of all concerned the fairest and most satisfactory arrangement yet evolved for regulation of traction rates. That many economies may be effected by the consolidation of the various lines into one system, is a statement which will probably be accepted without argument. On the other hand, it is quite certain that there will be considerable divergence of opinion on the question of municipal ownership. In any case it seems that there are still a great many practical details which must be worked out. Compromises will have to be effected between the various classes of security holders when the time actually comes to distribute the new securities. There will probably be vigorous opposition brought in the courts from many sources. But this plan is at least a starting point. It represents a definite attempt to work out from a broad public-spirited point of view a comprehensive solution to the whole troubled question of transit service in New York City.

## THE GAS INDUSTRY

§57 From the most authoritative source available we have obtained the following tabulation of gas sales by years for the period 1901-1920, inclusive.

## GAS SALES BY YEARS

1901-1920, Inc.

*Compiled from Brown's Directory of Gas Companies*

1901.....	101,625,366,000	cubic feet
1902.....	92,714,667,000	" "
1903.....	105,676,479,000	" "
1904.....	113,930,140,000	" "
1905.....	112,444,237,000	" "
1906.....	122,849,725,000	" "
1907.....	132,011,582,000	" "
1908.....	138,570,073,000	" "
1909.....	143,117,693,000	" "
1910.....	149,430,539,000	" "
1911.....	159,100,674,000	" "
1912.....	178,228,754,000	" "
1913.....	188,285,840,000	" "
1914.....	198,838,834,000	" "
1915.....	204,309,522,000	" "
1916.....	231,331,313,000	" "
1917.....	264,493,003,000	" "
1918.....	271,593,141,000	" "
1919.....	306,632,786,000	" "
1920.....	319,887,813,000	" "

The above tabulation is a most convincing argument that the gas industry is keeping pace with the industrial growth and economic changes of the country.

A striking feature disclosed by the above figures is the inappreciable extent to which the gas business has been adversely affected by any business depressions which occurred during the past twenty years. The stability of the gas business and the indispensable and essential character of its service are given a further reflection in the growth indicated by the foregoing figures.

Nowhere in the gas industry are there more encouraging indications than in the very general tendency toward the adoption of more scientific principles of rate-making. The horizontal flat rate under which all consumers, regardless of the amount of their consumption, are charged with the same rate, served its purpose reasonably well in the days when gas was used almost entirely as an illuminant and there was comparatively little variation in the quantity consumed by its users. The development of gas as a fuel for domestic purposes prompted the first step of departure from the original basis of charge. But the most important progress in this regard dates from the application of gas to industrial fuel purposes. The rate structure, admittedly one of the most important elements

in any business, is at last receiving the attention which its importance demands, and with the general adoption of scientific rates, which in many situations are now in successful operation, an extremely retarding influence will have been removed from the gas business.

There is a growing tendency toward the adoption of more economic standards of quality and service as the basis of gas supply. The candle power standard, scientifically obsolete for many years, now has no more than a precarious hold in several isolated situations and heat value standards, or those which have as their basis the calorific value of the gas, have come into almost universal use. In addition to this, there is recognition of the fact, that many of the earlier heat unit standards adopted were unnecessarily high and that not only are greater economies possible in the manufacturing process by the use of gas of relatively low heat value standards, but that such gas by reason of its more uniform composition is more satisfactory and even more economical for the public use. This promises important development and encourages the hope that the universal use of relatively low heat value standards will bring about a greater stabilization of the market for raw materials used in gas manufacture and lead to improvements in the processes employed.

Widely divergent conditions exist in different sections of the country in the availability of raw materials used in gas manufacture. It is the conviction of those devoted to the scientific and economic development of the gas industry, that freedom from restrictive standards of quality and the substitution therefor of standards sufficiently flexible to be adapted to the conditions governing the availability of raw materials in any locality is essential to the furnishing of the best service to the consumer and to the economical development of the gas industry. Regulatory authorities are more favorably inclined to the acceptance of this principle and with its general recognition may be expected greater strides in the development of processes and more important economies in manufacturing methods than have ever before marked the progress of the gas industry.

A high authority in the gas industry has recently made the following statement: "The future holds undreamed of possibilities for this old-established industry. Gas is now the recognized and universal fuel in the home. The next step is its general adoption to the thousand and more uses in industry. Already a noticeable stride has been made in this direction, but there are still problems to be solved by the gas industry, on which its members are now hard at work before this class of service can be fully appreciated. The application of gas for heat treatment in the nation's industries is a field as yet practically untouched. The possibilities in this direction are tremendous and it is well within the bounds of reason to see the day not so far off when solid fuel will be a thing of the past, and when all coal will be converted into gaseous fuel."

#### COMMISSION REGULATION

The state regulatory commissions were originally created to place a curb on the utility operators in their supposed exploitation of the public. At that time there was a general feeling, which still persists to a limited extent, that such restriction upon private enterprise would discourage the investment of further

capital in the business and would prevent its proper and necessary development. The critics of regulation, however, seem to have under-rated the spirit of fairness with which the commissions took up their work. Hardly had regulation become an established fact when the war broke out. Within a few years rising wages and commodity prices had so increased operating expenses that many utilities were losing money. The commission, however, realising the fundamental necessity of maintaining the utility industry in the best possible condition, were fair in recognising the necessity for increased rates.

This was not, of course, what the demagogues and politicians had counted on and numerous attempts ensued to arouse popular opposition to the regulatory bodies. In at least two states the gubernatorial elections last fall were fought, and won, on platforms calling for the abolition of the commission. So far as can be learned, however, there is no general public demand for the abolition of state regulatory bodies. In the two cases mentioned above the campaigns were strongly affected by national consideration. In one of these states the candidate who stood strongly for regulation, sent a telegram to the governors of all the other states asking for their opinions in the matter. He received thirty-six replies. The wording of those replies, of course, differed but in their substance all were in fundamental agreement with the statement from Massachusetts, that the commission had proved its usefulness and was here to stay.

There are, to be sure, many problems which have not yet been solved. One of the most important of these is probably the adoption of a uniform and comprehensive scheme for the valuation of utility properties. There is an almost universal tendency to restrict the right of utility companies to earn more than a stated return on the present value of their properties as going concerns. It is thus of the utmost importance to the investment bankers that they be able to form some idea of what valuation will probably be placed by the commission upon a property, in order that they may judge to what extent the securities of the company may be safely issued.

As yet the question remains in a chaotic condition. The various commissions have contributed little helpful thought on the subject, due largely to the limitations of the cases presented to them and the fact that counsel when appearing before them have felt that they must be guided by the peculiar exigencies of each case, and not attempt to present the subject of valuation beyond its relation to the particular case under consideration. Strictly on its merits, therefore, neither angle of the question has obtained a full presentation. Public utility operators have very varying views on the subject and engineers are more or less hampered by the varying purposes for which they are asked to make valuations. Replacement value seems still to be the best guide the investment banker has as to the value of properties for loan purposes, provided always of course that the properties are reasonably productive, are permitted to earn a fair return on the cost of reproduction, and have been reasonably maintained. This method has its serious drawbacks. By reason of the changes wrought by the war the prices to be used in figuring replacement values have become a new and very difficult problem. At best this method is only what has been aptly termed an "intelligent guess," but it is perhaps the most "intelligent guess" that has so far been arrived at. Perhaps in time the commissions may evolve a new and better system. It is a

question of the utmost importance to investment bankers and one which should receive their earnest attention. A sub-committee is studying this question and will report on it shortly.

Many other problems are constantly coming up for solution. With the re-adjustment of commodity prices has come a temporary lowering of costs of labor and essential materials, but it is as yet by no means certain that this is not a mere temporary condition so far as the utility business is concerned. It is, therefore, necessary to these utilities that they be allowed to maintain their present rates to cover previous losses in operation and to re-establish a credit for the carrying on of the large construction program which has been deferred for the past four years.

It is gratifying to note the acceptance of these facts by the regulatory bodies, and a far better understanding by them of utility problems. The regulation of utilities is upon a broader and more comprehensive basis with wider recognition of the influence of fair treatment leading to the profitable operation of the utility upon the welfare and development of the community served.

### CONCLUSION

It will thus be seen that the public utilities have come satisfactorily through a year of general depression and that during the year progress has been made by the various groups affected by the industry—operators, investors and the public served—toward a more complete realization of the fundamental unity of their interests. In particular the state commissions are arriving at a steadily clearer understanding of utility problems and are rendering valuable assistance toward their solution. All these factors have tended to increase public confidence in the industry and public utility securities are returning to their old favor with investors.

H. M. ADDINSELL, *Chairman*

*Mr. Peirce* (continuing): Now gentlemen, the Federal Power Commission, has brought in a recommendation for allowance of rates that to me is I think one of the most vicious proposals that has ever been made by a regulating body. They granted a rehearing this week.

We have about ten minutes and I do not believe it possible Mr. President, to discuss this in ten minutes. It is a thing that is vital to every man dealing in securities, and if we have a Federal example as to such a rate of return it will counteract all the work that has been done by the public service commissions in the last five years to get an adequate return for public utilities. We must understand it thoroughly and we must discuss it and take action on it.

*The President:* Mr. Peirce, I think it will be very unfortunate if we have to take the matter up in so short a time. I think it will

be better to adjourn until tomorrow morning and I wish all of the members here will keep it thoroughly in mind and be present the first thing tomorrow morning. We have a very heavy as well as a very interesting program for the forenoon, and we want to be sure to get through with it at noon, so as to give you the afternoon tomorrow.

We will stand adjourned until tomorrow morning.

## TUESDAY MORNING SESSION

NOVEMBER 1, 1921.

*The President:* Gentlemen, when we closed the meeting yesterday afternoon, we were right in the middle of the program relative to public service securities. That is a matter which ought to be of great interest to the members of the convention, and I don't want to take it up until more of them are present, and for that reason I am going to take up several formal matters, and get them out of the way first.

On the program this morning there is scheduled to be heard the report of the Irrigation Securities Committee, and Mr. Harrison, the Chairman of that committee, who is of the Anglo and London Paris National Bank of San Francisco, has prepared an excellent report which is very germane to a situation which the Association cannot ignore in the next few years. Everybody who knows anything about the development of the particular part of the west where irrigation is needed knows that the irrigation districts are bound to develop in the next few years, and in appointing this committee, the Association planned to have a committee which would carry over this period. This report is largely technical in its outline of the matter it presents, and unless there is objection from the floor, it will not be read this morning but it will go into the record and everybody will have a chance to see it. Without objection the report will be adopted. [The report was adopted without objection.]

## REPORT OF IRRIGATION SECURITIES COMMITTEE

The present Irrigation Securities Committee of this Association was organized very shortly before the opening of the sessions of the legislatures of those western states wherein irrigation is extensively practiced. So short, indeed was the time permitted us that it was deemed useless to attempt the passage in any of these states of a new and model irrigation act. Our efforts, therefore, were directed, in each of the states in which irrigation is an important factor, to secure the passage of certain desirable amendments and additions to their existing laws, and to prevent the passage of laws which could have no other effect than to weaken irrigation securities.

Your Committee has confined its study and its efforts to the so-called "Municipal Irrigation" district acts. The securities of water districts and mutual water companies are only occasionally presented for consideration, and the securities of privately owned irrigation companies seldom appear on bond dealers' lists. The fundamental reasonableness of the municipal irrigation district type of bond for the financing of water development, and the success both of this development and of its financing in the western states, where irrigation is extensively practiced, practically assures that most of such financing in the West will henceforth be through this type of bond, and justified us, we believe, in devoting our attention to it exclusively.

Of the western states practicing irrigation, Oregon, Utah, Arizona, Nevada, Idaho and California now have State commissions endowed with restrictive and supervisory powers, more or less broad. In all of these states, validation of irrigation district securities for investment of savings and trust funds, is in the hands of such Commissioners.

Without going extensively into legal and practical phases of state supervision, it may be said that this feature, coupled with the fact that these bonds are payable out of taxes, gives them the same essential qualities as those possessed by other municipal bonds.

State supervision is effective at several stages of the progress of an irrigation district. The scope of the power and responsibility of the State commission is practically the same in all these states. After the district has been organized and before any work has been done or any obligations assumed, the State commission, composed of the State Engineer, the Superintendent of Banks and the Attorney-General, must examine the proposed district with particular regard to the following points.

### PROCEDURE FOR CERTIFICATION OF DISTRICT BONDS

*Section 1.* Whenever the board of directors of any irrigation district or the board of supervisors of a drainage district organized and existing under and pursuant to the laws of the state of Oregon shall, by resolution declare that it deems it desirable that any contemplated or outstanding bonds of said district including any of its bonds authorized but not sold, shall be made available for the purposes provided for in Section 7 of this act, the board of directors shall thereupon file a certified copy of such resolution with the commission hereinafter provided for.



*Section 2.* Such commission on receipt of a certified copy of such resolution shall, without delay, make or cause to be made an investigation of the affairs of the district and report in writing upon such matters as it may deem essential and particularly upon the following points, in case the application is filed by an irrigation district.

(a) The supply of water available for the project and the right of the district to so much of the water as may be needed.

(b) The nature of the soil as to its fertility and susceptibility to irrigation, the probable amount of water needed for its irrigation and the probable need of drainage.

(c) The feasibility of the district's irrigation system and of the specific project for which the bonds under consideration are desired or have been used, whether such system and project be constructed, projected or partially completed.

(d) The reasonable market value of the water, water rights, canals, reservoirs, reservoir sites or other irrigation works owned by such district or to be acquired or constructed by it with the proceeds of any such bonds.

(e) The reasonable market value of the land included within the boundaries of the district.

(f) Whether or not the aggregate amount of the bonds under consideration, and any other outstanding bonds of said district, including bonds authorized but not sold, exceeds fifty per centum of the aggregate market value of the lands within said district and of the water, water rights, canals, reservoirs, reservoir sites and other irrigation works owned or to be acquired or constructed with the proceeds of any of said bonds, by said district, as determined by paragraphs (d) and (e) of this section.

(g) The numbers, date or dates of issue and denomination of the bonds, if any, which the commission shall find are available for the purposes provided for in section 7 of this act and, if the investigation has covered contemplated bonds, the total amount which the district can issue without exceeding the limitation expressed in paragraph (f) of this section; and the following in case the application is filed by a drainage district:

(h) The nature of the soil as to its fertility and productivity after drainage.

(i) The feasibility of the plan of reclamation.

(j) The reasonable market value of the works owned by such district or to be acquired or constructed by the proceeds of any such bonds.

(k) The reasonable market value of the land included within the boundaries of the district.

(l) Whether or not the aggregate amount of the bonds under consideration and any other outstanding bonds of said district, including bonds authorized but not sold, exceeds fifty per centum of the aggregate market value of the lands within said district and the reasonable market value of the works owned by such district or to be acquired or constructed by the proceeds of any such bonds as determined by paragraph (j) and (k) of this section.

(m) The number, date or dates of issue and denomination of the bonds, if any which the commission shall find are available for the purpose provided for in section 7 of this act and, if the investigation has covered contemplated bonds, the total

amount of bonds which the district can issue without exceeding the limitation expressed in paragraph (1) of this section.

*Section 3.* The written report of the investigation herein provided for shall be filed in the office of the Secretary of State and a copy of said report shall be forwarded by the commission to the secretary of the district for which the investigation shall have been made, and if said commission shall have found, as set out in said report, that the irrigation or drainage system of the district and the specific project for which the bonds under consideration are desired or have been issued, whether such project be constructed, projected or partially completed, are feasible and that the aggregate amount of the bonds under consideration and any other outstanding bonds of said district, including bonds authorized but not sold, does not exceed fifty per centum of the aggregate market value of the lands within said district and of the water, water rights, canals, reservoirs, reservoir sites and other irrigation or drainage works as the case may be, owned or to be acquired or constructed with the proceeds of any such bonds by said district; the bonds of such irrigation or drainage district, as described and enumerated in said report filed with the Secretary of State, shall be certified by the Secretary of State as hereinafter provided for. If the commission shall be notified by the board of directors of any district, whose irrigation or drainage system has been found in such report to be feasible, that the district has issued bonds and the commission shall find that said bonds are for any project or projects approved in such report and that the amount of said bonds does not exceed the limitation stated in said report the commission shall prepare and file with the Secretary of State a supplementary report giving the numbers, date or dates of issue and denominations of said bonds, which shall then be entitled to certification by the Secretary of State as hereinafter provided for. Subsequent issues of bonds may be made available for the purpose specified in this act upon like proceedings by said district, but after any of the bonds of an irrigation or drainage district have been enumerated and described as entitled to certification by the Secretary of State as herein provided for, it shall be unlawful for that district to issue bonds that will not be entitled to such certification. It is hereby made the duty of the Secretary of State to provide for filing and preserving the reports mentioned in this section and to make, keep and preserve a record of the bonds certified by him in accordance with the provisions of section 4 of this act, including the date of certification, the legal title of the district, the number of each bond, its par value, the date of its issue and that of its maturity..

*Section 4.* Whenever any bond of an irrigation or drainage district organized and existing as aforesaid, including any bond authorized in any such district but not sold, which shall be eligible to certification by the Secretary of State under section 3 of this act, shall be presented to the Secretary of State, he shall cause to be attached thereto a certificate in substantially the following form:

I....., Secretary of the State of Oregon, hereby certify that the within bond No..... of the..... District, issue..... (insert date), is in accordance with an act of the legislature of Oregon approved....., a legal investment for all trust funds and for the funds of all insurance companies, banks, both commercial and savings, trust companies, and bonding companies and any funds which may be invested in county, municipal or school district bonds, and it may be

deposited as security for the performance of any act whenever the bonds of any county, city, school district or other municipality may be so deposited, it being entitled to such privilege by virtue of an examination by the state engineer, the attorney-general and the superintendent of banks of the state of Oregon, in pursuance of said act. The within bond may also be used as security for the deposit of public money in the banks of said state.

In the event of a favorable report from the commission, and not otherwise, the bonds of the district, when they are issued, are certified as legal for savings bank and trust investment. No further bonds may be issued without the permission of the commission.

In some states directly and in other states indirectly, through its power to certify district bonds, the commission has power to prevent the use of irrigation district funds in any manner other than that for which it has been obtained.

State supervision has proved a valuable feature in stabilizing the activities of irrigation districts and in standardizing irrigation district bonds. In fact, it may be said that in none of the western states, where irrigation is extensively practiced, do the bond dealers handle any other than bonds which have received their proper certification.

This feature of the irrigation district laws makes practically impossible the sort of fly-by-night irrigation promotion which was a great many years ago, so harmful. In the future, no step in the direction of further stabilization should be neglected, to the end that the very fact that the bonds of an irrigation district are offered for sale will carry with it the implication that they are soundly based on approved values.

Your Committee is not able to accompany this report with the various legislative acts of the recent legislatures, for the reason that in no case has the official printing been completed.

In its work before the various legislatures the Committee has had in mind certain essential considerations, to-wit:

- (1) That to broaden the market for these securities and to help overcome a prejudice of years' standing, the elimination of the word "Irrigation" from the names of the districts was necessary or, in any event, highly desirable.

- (2) That a strong central state supervision and approval is the greatest assurance of the inherent strength of the districts' securities.

- (3) That subject to such supervision, the greatest possible latitude should be given the district in entering into engagements of various kinds and in marketing their securities.

- (4) That securities should not be issued by a district without the payment thereof being assured by mandatory tax or assessment provisions; and that every effort should be made to strengthen the assessment provisions of the statutes.

- (5) That any change in the statutes or the enactment of new laws, for which, there seemed no sufficient reason, as well as changes actually harmful, should be opposed.

- (6) That uniformity and standardization in the districts and their securities was more desirable to prevent actual confusion and uncertainty in the minds of the investing public.

(7) That the functions of an irrigation district should be limited to supplying water for irrigation purposes. (Excepting where the generation of hydro-electric power as a by-product, to be disposed of under contract to distributing companies at wholesale appeared desirable.)

While it is impossible at the present time to tell in detail what have been the results of our work, it may be said in a general way that strengthening amendments were secured in California, Utah, Nevada and Arizona, and the four last named are particularly to be commended for the creation of commissions along the lines of the California and Oregon Bond Certification Commissions. In these states the newly created commissions are given powers substantially the same as in the case of California and Oregon.

California, Arizona and Utah are now empowered to use the name "Water Conservation" instead of Irrigation. This change in title is based upon the thought that the general investing public is *not* prejudiced against the practice of artificially watering agricultural lands, nor is it prejudiced against securities issued to accomplish such purpose, if the same are authorized under really dependable laws and amply secured, but is prejudiced against the term "Irrigation."

Your Committee feels that its work of the present year has not been of as much value in the actual legislative results accomplished as in the fact that it has definitely established a policy. This policy, we believe, should be followed year by year and with increasing vigor, and have in view, definitely and consistently, the fact that irrigation district bonds are becoming increasingly important in the field of investment. It follows that the investment bankers must, just as continuously and consistently, work to make the securities strong.

California has been longest in the field with the Municipal Irrigation bonds, some of its oldest districts having been in successful operation more than 30 years. Oregon and Utah are following in the steps of California, using practically the same law as California, except in a few instances where they have profited to the improvement of their laws by California's experience. The results in these states, and especially in California, where time has been sufficient to make a just estimate of results, have been firmly to establish the Municipal Irrigation District type of bond.

The power of taxation is the basis for repayment of loans secured with which to construct such systems, and it would seem that in a given community a tax levied pursuant to law for such a purpose is just as certain of collection and payment as a tax levied for city, county or school requirements.

There is no priority of lien of a tax levied for one purpose over a tax levied for another purpose.

It is conceivable that under any law on the books of any state enacted for any purpose, bonds may be issued which are undesirable from an investment standpoint, but as dealers in investment securities, members of the Investment Bankers Association of America are endeavoring to choose those issues which are unquestionably worthy.

Irrigation District bonds, in common with all other forms of investment, should be selected with intelligent discrimination. The safety of such bonds depends far more upon the tax-paying ability of the property owners than upon

legislation which prescribes the tax-paying obligation. Said tax-paying ability in turn depends upon:

- (1) Location
- (2) Natural advantages
- (3) Soil
- (4) Drainage conditions
- (5) State of cultivation
- (6) Population
- (7) Nature of crops
- (8) Sufficiency and source of water supply
- (9) Type and condition of system
- (10) Present and future cost of water per acre per annum, and
- (11) Future bond issuing necessities, etc.,

but so does the safety of bonds, issued *for any other purpose* depend, in a large measure, upon the identical conditions above set forth.

Many instances may be cited of dealers who have refused to consider Irrigation District bonds, either because they were ignorant of them or because they were prejudiced against them or because they did not regard them as having been sufficiently seasoned, and who have not hesitated to buy the Municipal and School District issues of towns within irrigation districts. Yet the municipality or school district might well be unable to meet its obligations if the irrigation district in which it was situated should be unable to meet its obligations, the tax-paying ability of such municipalities and school districts being definitely and exactly limited to the tax-paying ability of the irrigation district; to illustrate:

In a certain entirely arid locality, fifty thousand people and all property values depend upon the irrigation systems. Without the existence of the irrigation district there would be no town, and without the ability to pay the irrigation taxes, the people would be without the ability to pay any other taxes.

Such instances as this confirm your Committee in its belief that constructive work to insure the worthiness of Municipal Irrigation District bonds and further constructive work to assure that their worthiness may become a matter of general knowledge in the investment field, is very desirable, and this conclusion is not reached entirely from the standpoint of the irrigation districts themselves, nor of the western states alone, but from the standpoint of progress of our country in general. Thousands, indeed millions, of acres of land are today idle or but partly productive. With the addition of a constant and certain water supply, these idle and partly productive lands can be brought to the highest state of cultivation and production. This means, not alone a great increase in primary wealth, but it implies a much greater increase in other business.

Concluding this report, and particularly to disabuse the minds of many eastern dealers, it should be said that irrigation district bonds of the type described are not land selling or colonization schemes. In frequent instances where the various State commissions have permitted the certification of irrigation district bonds, it has been necessary to establish the fact that the lands upon which the bonds are a lien are all under cultivation and peopled with a sufficient number of farmers to insure that best and most complete use may be made of the

water system. The farmers themselves organize every district, and only by their votes are the bonds issued and the money spent. They have a direct and immediate interest in seeing that the money is spent to its greatest advantage.

This fact wholly differentiates the modern Municipal Irrigation District from the old irrigation promotion plans which originally created the prejudice against Irrigation Bonds.

Respectfully submitted,

J. W. HARRISON, *Chairman.*

*The President:* Mr. Peirce, are you ready to go ahead with your program?

*Mr. Peirce:* Gentlemen, Federal Power Commission business will require a resolution to be passed by this convention. This resolution was approved by the Board of Governors, but I think that this question is of too vital importance to be determined by a handful. With the consent of your President I am going to let that wait for a little while and take up the first topic in this discussion this morning—"What can be done to assist in the restoration of street railway credit?" It seems to me to be a pretty sore subject. The street railroads have been classed as public utilities and this discussion has been put in charge of the Public Utility Committee. Personally, I don't think the street railroad subject belongs to public utilities any more than irrigation district bonds do under municipal bonds, but here it is. You might as well take it up and ventilate it.

The street railroads have suffered during the last few years from a number of troubles. I think the principal one is that the street railroads in the city are the pet target of the municipal politician and the cheap demagogue. It is something that everybody uses. It runs in front of everybody's home or place of business, and it is something that they can shoot at to make a popular appeal to the unthinking.

That, to my mind, is the first and primary cause of the troubles with street railroad companies. They have not been willing to give the companies a fair chance.

The second trouble is the fact that in so many cases the five cent fare has been one of the conditions of the franchise.

The third trouble has been that under the old franchises the street railroad company has been compelled to pave either the entire width of the street or that portion of the street between the

tracks and on each side. When those franchises were issued the modern street pavement of a heavy concrete base with an asphalt surface was practically unknown. The usual street paving was a cobble stone tamped down, a very simple matter. The obligation incurred and accepted by the street railroad company under those franchises has become through the development of the paving and the heavy rail a burden that was far greater than was ever intended by the bodies who issued the franchises or by the companies who accepted them. So those were the three fundamental causes of street railroad trouble. I see here today men who were selling street railroad bonds in those days when street railroads were popular. I see other men here who are so young in the business that they never conceived that a street railroad company could besolvent and the bonds could be good. I would like to have a discussion from both sides. Will somebody volunteer? Mr. MacGregor, you come from Pittsburgh. We would like to hear from you.

*Mr. MacGregor* (Glover & MacGregor, Pittsburgh): I was trying to get Mr. Crist to say something on the street railway situation there. We have had in Pittsburgh just about the same kind of situation they have in a good many cities. The railway company has been in the hands of a receiver for two or three years. We have now an eight cent fare. The Pittsburgh Railroad Company comprises about 350 miles of line in Allegheny, Beaver, Washington and Fayette counties. They increased the fare first from five to six cents and then to seven and one-half cents, and now it is three fares for a quarter. I understand in the last year they have probably made about a million or a million and a quarter dollars. They have a plan out for the reorganization of the company and it is on a basis of sharing the profits, if there are any, with the city, and it looks as if they might be able to get the situation worked out in a fairly satisfactory manner. They have had a reduction in operating costs largely through a cut in wages and the purchase of material at a lower price. Up to date the newspapers have not been agitating a return to a six cent fare or a five cent fare, but of course that is likely to come at any time. Mr. Arthur W. Thompson, President of the Philadelphia Company, is the originator of the plan for refinancing the companies and getting them out of the hands of the receivers. They have been

paying interest on practically all of the underlying bonds for at least two years. Sometimes they are about six months behind in paying their coupons, but so far as I have been able to judge I think the situation in Pittsburgh is better than it is in some other cities, largely from the fact that they could get a rate of fare that was demanded by the cost of operations, sinking fund, and interest requirements. [Applause.]

*Mr. Warren* (Stone & Webster, Inc., Boston): Mr. President, we have been asked what could be done to help street railroad credit. I think it is a thing we all have a great deal of interest in because we have all sold bonds of street railroad companies first and last. Stone & Webster's experience goes back over a period of about thirty years in the public utility business, and I am sorry to hear Mr. Peirce say that street railways have got to the point where we don't want to include them among the public utilities. As a matter of fact, in the public service we are giving a great many services that are absolutely essential to the public. One of these is a street railway service. It is a transportation service, and that transportation is absolutely essential to the larger communities. Looking back over the street railways we can see a great many, especially in the rural districts, which should never have been built. In the cities, especially in the congested cities, there is no question in our mind about the essential quality of the business and the fact that that business is growing. We have made a very careful study, going back over five years, ten years and fifteen years, with the idea of seeing what the automobile has done to street railway service.

There is a popular notion that the automobile has driven out the street railway. The history of the automobile goes back about fifteen years. If we look back about fifteen years, we will find a very few automobiles, so fifteen years covers automobile competition almost. We find the per capita riding in automobiles in every city in which we operate, I mean riding in street cars; that the riding today per capita is greater than it was five years ago, and very much greater than it was ten years ago, and greater still than it was fifteen years ago. In other words, the demand for service per capita is greater today than it was in any of those three periods, and our business covers a good cross section of the country. There is another element in the business that stands out very



strongly for credit companies and that is the business of street railways is probably the most stable business of any of the public utilities, looking at the number of passengers carried. In good times and bad there has been the same steady growth and a better growth in the street railway business than in any other class of public utilities. Mr. Peirce pointed out three main reasons why the street railway has had hard sledding during the war period, and they could probably be boiled down to almost one reason, and that is that the five cent fare is not adequate for operating expenses. When we went into the war one member of the firm said that the sudden increase in the cost of living will be a Godsend in disguise for the street railway situation, and he could see farther than I could. I could not see that because it looked like trouble and nothing but trouble to me, but as a matter of fact looking back as far as 1908 or 1909, after we reached the peak of a street railway credit, the nickel was getting smaller and smaller, and I remember, I think it was in 1910, there was a long article came out about the shrinking nickel, but the shrinkage was very, very slow; it was imperceptible, and then when the war came on the nickel went down very fast, and it was one of the best things that ever happened in the street railway industry in years, because it caused every manager to look for new economies, and great progress has been made along this line in the last five years.

We have a company that was one of the first to use that car that has been able to go right straight through and maintain its credit and pay ten per cent dividends on common stock. We ought to spread this good work. We have sold railroad bonds, some preferred stock, some common stock. The weight of that industry must be maintained, because it is not the street railroad business but the transportation business. In other words, there isn't a company in this country running street cars on rails today that has to stick to those rails if some other method will give that service better. It possibly cannot be done in the cities, but it probably can be done and is being done in outlying districts cheaper and better by busses, but the fundamental thing to remember is that the street railway business is one of the most stable businesses in the world. It is not going to blaze. We must give the service; the public demands that service and we have to finance it and do it on a sound basis. I thank you.

*Mr. Peirce:* I would like to have Mr. Paul Sinsheimer come up and give us a word or two of his experience. Gentlemen, this is a new member. He was for six years bond expert of the California Railroad Commission.

*Mr. Sinsheimer* (Mercantile Trust Co., San Francisco): Mr. Chairman and Mr. Peirce, I think that I am pretty apt to agree with the last speaker in so far as he took the position that the street railway is here to stay. The automobile has not displaced it and passenger traffic is increasing. It is my opinion that the street railways have gone through, or are now going through, their most difficult period. As Mr. Peirce has said to you, I have been, to a certain extent, on both sides of this question, and I may speak a bit frankly. I speak entirely without preparation or knowledge that I would be called upon and I hope you will understand it is simply with the idea and hope of throwing some light on this very difficult situation. I think some of the difficulties are due not so much to the public, but to the street railways themselves. I think if we look back over the history of some of the street railways in America, with which I think all of you are more or less familiar, we will see instances where, over a long period of years, the street railways themselves have not done justice to the public, and when the time came that they, in turn, asked justice from the public, the public has been slow to grant it. Now, when this nickel the previous speaker referred to began to shrink, the public paid more for its bread; the five cent loaf disappeared, but the five cent street railway fare continued. In every other line—every other industry—the basic nickel or cent was discredited and a new price prevailed, but it was a year or two years before the public would grant the relief to the street railways, and that was because, I think, the public in many cities felt aggrieved because justice had not been done the public by the street railways previous to that time. I am firmly of the opinion that we are now largely out of that era. No one can reach far into the future, but I think the essential starting point is the new relationship between the public and the street railways, and that relationship should be expressed in the franchises. If you will go to your communities with the enlightened vision and go to the public with the proper publicity campaign, it is my opinion you will get your franchises, and when you get them free from these objectionable conditions we should form something

of a partnership where the public takes a share of the burden and receives a share of the benefit. There is one further step yet to be taken. We have in some places the one man car, but I don't think we have yet reached the entire economies that are necessary to place the street railway systems in strict accordance with the economic conditions of the day. There must be, and there will be, additional unification. There will be cheapening of costs all along the line. Of course, we have an extremely difficult situation in the larger city of New York, and as long as that remains as it is—in football politics—I doubt very much whether we will see the great change which we all hope for. I believe every member of this Association should give the fullest aid and assistance to those trying to work out the problem in New York City, and I think when it is once settled the problems throughout the United States will be speedily settled on the same basis.

*Mr. Peirce:* Now Gentlemen, we may discuss the street railroad subject for the rest of the day, but the President has said that the Public Utility Committee must stop at a quarter of eleven. Now, on this question of power—the Federal Power Board. They are having a meeting now—a rehearing on a suggestion for the modification of the regulation made by the Power Board. If there is anybody who wants to say anything on this subject I will be glad to hear from him. If not, I will read a resolution that has been passed by the Board of Governors and will ask somebody to move its adoption, so that we can send it to Secretary Weeks, who we feel can help us very much indeed in securing its passage. Is there any question?

*The President:* Gentlemen, the meeting is yours.

*Mr. Tillotson* (Tillotson & Wolcott Co., Cleveland): Let us hear the resolution.

*"WHEREAS, The Federal Water Power Act of June 11, 1920, requires among other things that provision shall be made in licenses granted under such Act whereby a large portion of the profits on the investment of the licensee in excess of a specified rate of return to be named on the license shall be used to amortize the investment; and*

*"WHEREAS, The Federal Power Commission's rules and regulations, effective June 6, 1921, provide among other things in Regulation 17, as follows:*

*"Sec. 3. Specified rate of return.—Method of determining.—A. The specified rate of return upon the actual, legitimate investment of a licensee in any project or projects shall, for the purposes of this regulation, be one and one-half (1½) times weighted average annual interest rate payable on the par value of the*

*bona fide interest-bearing debt of the licensee actually outstanding, in whole or in part, on account of the project property at the beginning of the period of amortisation and of each calendar year thereafter: Provided, That, if at the beginning of the period of amortisation or of any calendar year thereafter, the outstanding interest-bearing debt of the licensee on account of the projects under license, together with any other works or property operated in connection therewith, is less than 25 per cent of the actual, legitimate investment of the licensee in said project or projects, then and in such event for the calendar year next following the specified rate of return shall be two (2) times the legal rate of interest in the state in which the project, or the greater part thereof, is located;*

*"WHEREAS, Sound financing of water powers and other public enterprises necessitates the providing of a large part of the capital from the proceeds of stock to the end that the companies may maintain a high degree of credit and thus be able to sell their bonds on a low interest basis and always be able to finance the necessary facilities to enable such companies adequately to serve the public; and*

*"WHEREAS, The financing of public enterprises wholly through debt obligations is under modern conditions usually impracticable and in any event is always unsound and dangerous because it necessitates the selling of bonds on a high yield basis and places the companies in bad credit, thus hampering them in serving the public and increasing the cost of any service that can be given to the public; and*

*"WHEREAS, The above quoted regulation penalizes the development of water powers upon a basis that is safe for the investor and economical from the standpoint of the consumer and places a premium upon uneconomical development and unsound finance, and*

*"WHEREAS, The cost of money acquired through the sale of stocks depends upon many factors besides the amount of bonds outstanding or the effective rate of interest thereon; therefore be it*

*"RESOLVED, That the Investment Bankers Association of America respectfully calls the attention of the Federal Power Commission to these facts and earnestly request a reconsideration and modification of the regulation above referred to as being in effect a serious deterrent to the development of the water powers of the Nation and injurious to the public interests; and be it further*

*"RESOLVED, That in the opinion of this Association a requirement that when earnings equal one and one-half ( $1\frac{1}{2}$ ) times the average effective bond interest amortisation of investment shall begin, is unfair to the investors in the case of properly financed companies and will seriously retard the development of water powers, and that this Association earnestly urges the adoption of some standard as a basis for determining earnings applicable to amortisation of investment other than the effective interest rate on bonded debt; and be it further*

*"RESOLVED, That the Secretary of this Association be instructed to send certified copies of this resolution immediately to the members of the Federal Power Commission."*

**Mr. Peirce:** Gentlemen, you have heard the resolution.

**Mr. Moore** (Barclay, Moore & Co., Philadelphia): **Mr. President,** I move the adoption of the resolution.

*Mr. Fenhagen* (Robert Garrett & Sons, Baltimore): I second the motion.

*\*Vice President Prescott* (Prescott & Snider, Kansas City): Gentlemen, you have heard the resolution, and the motion to adopt has been seconded. Is there any discussion?

*Mr. Moore*: I would just like to ask whether the experts on water power propositions who are members of our Association would offer any suggestion for the basis of determining the earning capacity which these companies should be entitled to receive. In other words, we are criticising the suggestion contained in the act, but should not we also go further and offer some constructive suggestion as to what should take its place as a basis?

*Mr. Peirce*: That has all been taken up, Mr. Moore, in the National Electric Light Association, which is handling the thing. They simply want the weight of this resolution to help them. The standard effective in the West in the California Commission is a rate which provides for operating expenses, maintenance, full depreciation, and eight per cent interest on the used and usable value of the property without regard to the rate of interest on the debt or how much debt there is. In other words, if the property is worth fifty million dollars they are allowed a return on the fifty million dollars, no matter where the fifty million dollars comes from, whether stock or bonds, or how it is provided, if that fifty million dollars is invested in the property. Does that answer your question?

*Mr. Moore*: Well, would it not be well for us to go on record endorsing the California plan or some plan of that kind?

*Mr. Peirce*: No, because conditions may be different in different states. That is a matter that is to be left largely to the Association to work out on the base average taken. If we are going into that question of rate fixing here and valuation you have two months' work.

*Mr. Beebe* (Harris, Forbes & Co., New York): I understand that the commission has granted a hearing in this matter, and I think it would be well to explain the situation to the members, before we take action.

*Mr. Peirce*: The rush is caused by the fact that the Federal Power Commission has granted a rehearing on this question this week, and the weight of the opinion of this Association is wanted

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*\*John A. Prescott, Vice President in the Chair.*

on the improper principles with reference to the rate of return on the bonded indebtedness.

*Mr. Beebe:* If the resolution is adopted will the subject be referred to the Public Service Committee of the Association?

*Vice President Prescott:* It would come up before the Board of Governors or be taken up by the proper committee.

*Mr. Pierce:* The resolution has been approved by the Board of Governors and referred to the Association as a whole for action.

*Vice President Prescott:* You have heard the resolution. If there is no further discussion those in favor of the resolution say Aye.

(The vote was taken and the resolution unanimously adopted.)

*Mr. Peirce:* In going over some of the balance sheets, with the comptroller of one of the power companies in California, we have given a great deal of consideration to the question of amortization. We have prepared figures on it, and we would like to call this to your attention for your discussion if you like. On account of lack of time I am going to take the meat of the thing rather than the whole thing. It bears largely on the question of junior finance, and the sale of stocks at less than par and the amortization of the discounts thereon.

(Here President Osgood resumed the Chair).

The question of doing a large portion of the financing of Public Utilities through the medium of junior securities is becoming of more and more importance all the time, but before it can be done in any large way, there are two vital points that must be safeguarded.

First, the income of the company must be sufficient and so stabilized that the dividends on these junior securities will be paid with the same punctuality as the interest on the funded debt; and second, the security upon which the issues are based must be ample to safeguard the principal. In order to accomplish these two things it seems to me to be necessary for the Investment Bankers Association of America to use the weight of its influence with the various public utility commissions to the end that the rates may be adequate not only to pay the dividends, but to build up the physical property to the extent that there shall be at least one dollar of physical property for each dollar of the junior securities outstanding *that may have been sold to the public.*

This brings us right to a question which seems to me to be the heart of the whole matter, and that is the proper amortization of discounts. It has been current practice to amortize the discount on an issue of bonds throughout the life of that issue. In theory that is probably correct and is not materially harmful. But, what about the discounts on Preferred stocks and Common stocks? What is the proper period in which the difference between the par value of these stock issues and the amount derived from their sale should be made up, and how? This, Gentlemen, is the question to which I think we should give very serious thought.

It has been current practice recently when public utility bonds are issued to limit the issue at par and the face amount of the issue to 75% of the cost of the improvements to be made. Therefore, the other 25%, and in addition thereto such discount from the sale of the bonds as the company is compelled to stand in order to market them, must be made up. Somewhere, somehow, the utilities have been called upon to find this money. It is now the fashion to provide this from the sale of stock. In most cases it is Preferred stock. It is customary to say to an intending investor that every dollar he puts into the Preferred stock is represented by a dollar of fixed assets, and this is true in most instances. It also is true that recently most utilities had to sell their Preferred stocks on an 8% basis which, if the stock is a 6% stock, means the sale of it at about 75. Ordinarily 8% is all a company is permitted by the commissions to earn on the investment. Therefore, there is no profit to the company. The earnings do not provide a means by which these discounts may be quickly amortized or a surplus built up to protect the investor, therefore the result is that there is little chance of there being an increase in the intrinsic value of the securities of the corporation which are junior to the Preferred stock, and which should be the vehicle for providing additional equity, and as their market can't improve, their price cannot go up, and consequently the price at which the company must continue to sell its Preferred stock remains low. Discounts continue excessive and the vicious circle goes on.

This attitude on the part of regulating bodies too closely restricting earnings cannot help but eventually result in two things. First, that the sale of junior securities will become increasingly difficult at increasingly relatively higher costs of money, and

finally that it will become impossible to raise money from that source at all because the company cannot afford to pay the price which investors will demand where there is regulation of security but no assurance that the issuing corporation will have such earnings as will enable it to administer its financial affairs along those lines which experience has shown to be necessary. Those lines are, that there should be sufficient earnings to enable the corporation to lay up for lean years a reserve which may be applied to dividends as an assurance against the time, which always recurs in every corporation's experience, when earnings will not be sufficient to pay such dividends. This reserve, of course, also constitutes an assurance of the continuity of the promised dividends upon the Preferred stock; and over and above this, there should be earnings sufficiently beyond this to make it possible for the company within a comparatively short space of time to build up in actual property against which no securities can be issued, an equity equal in par value to the amount of discount upon its outstanding securities.

If a company were static, this would be easy, but in a growing company where the annual construction requirements run into the millions, this has become a grave problem and the cord is being drawn tighter each year around the neck of the unfortunate corporation.

This matter of discount upon securities is a very vital one and one which I believe has not been given the attention it deserves. Your public utility commission says that this is given due weight in computing the cost of money ascertained through a table which is scientifically accurate, and where the company is permitted to sell its definite maturity bonds upon a definite basis, this amortization has been foreseen and provided for. This reasoning, however, overlooks a very important consideration. Assuming that a company spends \$10,000,000 cash in one year for a new development and issues against it \$7,500,000 of bonds which are sold at 90, the company is in position of having an installed property which costs \$10,000,000 but against which it has received but \$9,000,000. \$1,000,000 must be provided from some source and that \$1,000,000 is immediately reflected in floating debt. This may temporarily be carried as open accounts and then as notes in favor of the vendor, and finally when the vendor must be paid, these notes or their successors find their way into the



hands of the banks with which the company does business, with the result that the company has made permanent capital expenditures of \$10,000,000 and obtained the money therefor by using bank credit which is a highly improper proceeding as *credit must never be confused with capital*.

Now, to take a specific case—the statement for the year ended December 31, 1920 of one of our best known power companies has been analyzed. The discount and expenses on the funded debt of the corporation at December 31, 1920 stood at \$5,088,239; during the year the company wrote off \$306,537. To ascertain the amount of the discount on bonds sold during the year therefore, the latter figure is added to their balance sheet figure which gives the total of \$5,394,776. This figure for December 31, 1919 was \$4,574,943. It is therefore, apparent that the total amount of discount suffered on the bonds sold during the year 1920 was \$819,833. The total discount and expense on capital stock outstanding at the end of the year 1920 was \$5,525,155. At December 31, 1919 this figure was \$4,752,788, an increase in stock discount of \$772,367; adding the increase in bond discount there is shown a total discount on securities sold during the year of \$1,592,200.

Assuming that bonds and stock were issued in an amount equal to the cost of the physical properties, the amount derived for the sale of such bonds and stock was \$1,592,200 less than the amount required to pay for the property installed. There are in the earnings statement certain items which appear as deductions but which do not represent cash outlay. The item of bond discount and expense written off amounted to \$306,537 is one of these. The company actually earned this amount, made a book charge and deducted it from the earning statement, and therefore, it may be assumed that they had that amount of cash in 1920 to help absorb discount on the other securities. Therefore, we arrive at a figure of \$1,285,663. Their income account showed net income, disregarding miscellaneous adjustments, of \$3,919,958. The company disbursed as dividends from this account, \$3,478,778, and were able to carry to surplus \$441,180. If this surplus were all applicable to assist in the payment for physical property and that none of it had to be absorbed as additional working capital, which item, however, should absorb some of it, this figure of \$441,180 could be considered as cash available to be used in

absorbing the discount and there then would remain \$844,483 of discount as to which there was no cash available.

The income statement shows that there was charged during the year to depreciation \$2,788,302. Now, we dealers in public utility securities have always made a great point about this depreciation reserve being invested in additional betterments. But, is this true? It has been shown that there must have been an amount expended for betterments for which an amount of bonds and stock equal to cost of betterments has been issued. However, the total cash received from the sale of bonds and stock, the entire surplus account and the amortization of bond discount and expenses are insufficient to complete the payments for such betterments. Therefore, to fully pay for these items it will be necessary to take \$844,483 of the depreciation reserve. Now, it is quite customary when analyzing a balance sheet to look at the item of surplus and the item of reserve and to say where the surplus and reserve are, the statement generally being made that they have been re-invested in the property. As a matter of fact it can be shown from the foregoing example that last year where there was an apparent surplus of \$441,180 which might have been said to be re-invested in the property, and depreciation reserve of \$2,788,302 which, if one did not make a too close analysis, might be considered invested in the property. As a matter of fact when such analysis is made it is shown that the surplus could not have been applied for the payment of betterments actually put in place, or applied to additional working capital. On the other hand if it is maintained that it was applied to one of these things, then the company's floating debt must have been greatly increased. It would boil down, in the particular case under consideration, to an investment of not to exceed \$1,943,819 of the depreciation reserve in specific betterments, and with the further result that no specific betterments or assets had been acquired through the use and application of the surplus account or of \$844,483, the depreciation reserve.

Now, this is an unpleasant subject, but we might as well face it frankly because it is a condition which the public utilities commissioners do not appear to understand, nor to which they appear to have given due weight, and it is a condition regarding which I think that many of us have been deluding ourselves.

If the foregoing theory is correct, and I think it is incontestable, it probably would be much better for us to make a strong presentation of this situation to the public utilities commissions, and have it remedied than it would be for us to refrain from making it for fear it might react unfavorably against the ability of corporations to finance themselves. Our duty is to the investor primarily and then to the corporations who depend upon us for financing, and this situation is bound to result in such reaction in any event because, in my opinion, if these present methods are persisted in, the utilities will have constantly increasing floating debt and the time will come when they will not be able to finance any of these debts either by the sale of bonds, because the terms of the mortgage would prevent, or by the sale of junior securities, because there will be no equity against which such securities may be issued. Under present conditions there is little assurance that the surplus of the utilities companies represents money actually invested in property, and if the depreciation reserve is actually invested in specific property, that cannot be an element of added value to the junior securities because depreciation reserve is supposed to only compensate for the depreciation of the actual value of the property.

What is the remedy?

Let us refer back for a moment to the example of the company that spend \$10,000,000 and received \$9,000,000 from the sale of its bonds and preferred stock. This \$1,000,000 of deficiency which must be provided should be made up by the sale of common stock. It is apparent, however, that after the common stock is sold there is no property value behind it. It, therefore, must either bear such a dividend as to make it a good speculation, or it must be safeguarded, and the only way that it can be safeguarded is to build up the property value behind it. Let us assume that the \$1,000,000 is provided by the sale of common stock at 75. This would mean that there must be sold common stock to the par value of \$1,333,333, against which, as stated before, there is no property value. Under present conditions this stock is not salable, but the public service commissions must be brought to a point of view to regard the discount of \$1,333,333 as a construction charge to be added to the property value, which is more or less fallacious or it must allow the company to make sufficient earnings to not only

pay the interest on the bonds and the dividends on the \$2,500,000 preferred and \$1,333,333 common stock, earnings sufficient also to provide proper depreciation, but over and above all this, earnings sufficient to build up within a reasonable time, say five years, a property value of \$1,333,333. In other words, it must allow that company to earn, in addition to the above items, \$266,666 each year on additional property, against which no securities, either bonds or stock, may be issued. And when something of this kind, and only when something of this kind, is done, then can a reasonable amount of the financing of our public utility companies be properly done through the sale of junior securities, and it seems to me that it is the duty of this Association to go on record in such a way that we who are financing public utility companies, and the companies themselves, may use the findings of this Association as the leverage upon the various utility commissions to the end that they will take this stand and will permit such earnings and force such investments.

I just brought this matter to the attention of the members so that they would give it some thought.

*The President:* Mr. Peirce, I don't want to shut off any real discussion on this subject because I think it is a rather important one, and if any of the members desire to express any opinion on it we should be very glad indeed to hear from them. As I said yesterday, this is your meeting. You came here for the purpose of discussing and threshing out these things on the floor. Does anybody else want to speak further on the matter?

*Mr. Hansell* (Redmond & Co., Philadelphia): Gentlemen, this discussion Mr. Peirce started reminds me of one of the most successful securities which we have ever issued and I have never heard of it being done before. I thought it might be interesting to you. We are interested in the Central Light & Power Company which supplies the central part of Pennsylvania with electric light and power. We wanted to create greater equity behind our bonds. It was at a time when it was very difficult to sell preferred stocks, and we could not sell common stock, because all of the common stock was held by an estate and you could not buy it. They were not in a position to put up any additional money. We issued a no par value preferred stock. We sold it at \$42 a share to receive \$3.20 a share for the first year, \$3.60 a share for the second year,

and \$4.00 a share for the third year, and thereafter. Our first issue was at \$42 a share. During the depression the lowest it ever got was \$40 a share because the people felt the next year they would get a higher dividend if they would hang onto it. We have recently issued additional stock at \$45 a share, and now the stock is \$47 a share bid. We are in a position to take advantage of whatever the market may be in the street and I think our next issue will be around \$50 a share. That has worked very well and has been very satisfactory to the investor. It has been very popular in the district the company serves, because it sells at a popular price, and we have sold, I suppose, fifty per cent of the issue right in the territory. [Applause.]

*Mr. Hayden* (Hayden, Miller & Co., Cleveland): I would like to ask at what value per share, if any, this preferred stock no par value could be retired.

*Mr. Hansell*: We had quite a problem about that. We made it \$70 a share. It seems absolutely absurd, but whoever heard of a public utility company being liquidated unless it fails? If it goes in the hands of a receiver the stock is not going to be worth anything any way. Otherwise we do not see how it could be liquidated, and so we put it at \$70. [Laughter.]

*The President*: Mr. Sheldon, you look as if you might have some ideas on this subject.

*Mr. Sheldon* (Lee, Higginson & Co., New York): I am sorry that I look that way [Laughter], but I will agree that that is one of the most important things which we can discuss here, and I am in accord with Mr. Peirce's paper which he kindly handed me on the train. I want to endorse it.

*The President*: Has anybody else anything to say? Mr. Brewster.

*Mr. Brewster* (Russell, Brewster & Co., Chicago): I can't throw any light on the subject.

*The President*: Gentlemen, it seems to me the subject is a very interesting one, but if nobody wants to discuss it any further we will proceed to the next matter on the program, which is the report and discussion of the Real Estate Securities Committee. Mr. Tillotson is the Chairman of the Committee. [Applause.]

*Mr. Tillotson*: Mr. Chairman and Gentlemen, this report is short. There are not many questions to be discussed and the

report is largely the work of one of the members of the committee. I am going to ask Mr. Fox, of Milwaukee, to take charge of it. He has a few suggestions he wishes to offer.

*Mr. Fox* (Morris F. Fox & Co., Milwaukee): The report is very brief, and is really a summary of the investigations of the committee.

## REPORT OF REAL ESTATE SECURITIES COMMITTEE

The work of the Real Estate Committee has been confined mostly to correspondence. No meetings were held, but the Chairman has been in consultation with some of the committee members. Several subjects have been discussed, among them being

### RECENT LAWS CONCERNING RELATIONS OF LANDLORD AND TENANT

These laws may be classified, as follows:

First: Laws under which the state or its subdivisions engaged directly in the business of erecting houses or granting aid to private builders. The laws of North Dakota are an example.

Second: Laws for the encouragement of private building, usually by the exemption of new buildings from taxes for a certain length of time. The New York statutes are an instance of this form of legislation.

Third: Laws modifying the landlords' right to eject the tenant by summary process. These exist in practically all states which have had any rent legislation.

Fourth: Laws seeking to regulate rents and directly interfering with the use of property for housing.

We do not consider that the laws of the second and third classes can seriously interfere with the value of real estate securities, although their exemption from taxation may cause an inflation of building values, with the consequent disagreeable results when the market is over-supplied and the period of tax-exemption is over. The members of the Association have due knowledge of these laws and can act as their judgment dictates.

Interference with the right of ejection is rather an inconvenience. The laws so far put on the statutes do not undertake to fix the rent, but merely increase the length of time that the tenant may occupy the premises after notice to quit. The validity of the laws has been sustained in New York and the District of Columbia by the Supreme Court of the United States and by the Court of Appeals of New York. We do not know whether they have been attacked in other places or whether their enactment has in any way affected the value of real estate.

Laws of the first class, that is where the State and its subdivisions engage directly in the business of building houses or grant aid to builders are a menace. Private enterprises cannot compete with the Government, which pays its losses out of taxes. Such laws would probably be held unconstitutional in most of the states, but where the constitutions are amended, as in the case of North Dakota, permitting the state and its subdivisions to engage in private business, they are absolutely valid. The North Dakota law has been sustained by the Supreme Court of the United States.

Laws of the fourth class offer most serious danger to investments. They constitute an expropriation of the owner's property. We know of no state where such laws have been held valid directly, and they would be undoubtedly condemned, except that the court might consider the language used by Justice Holmes, who held that in such cases two points were presented. First, whether the laws there in question impaired the obligations of existing contracts; and second, whether the legislatures, national and state, had the right to impair such contracts under the

police power. He said that the laws did impair existing contracts and that under the police power the legislatures might do so in spite of the direct prohibitions of the Federal constitution. Four members of the court held that the laws did impair the obligations of contracts and that for that reason they were invalid. Whether the four who concurred with Justice Holmes in holding the laws then before the court valid agreed with his reasons cannot be definitely determined, as they did not file opinions. It seems altogether probably that they held in accordance with the majority of the states that the laws in question did not impair contracts and therefore no constitutional question was presented. In his opinion Justice Holmes said in effect that the police power was superior to direct constitutional inhibitions, and that, therefore, the laws regulating rents were valid.

To say that the value of real estate securities alone has been affected by this opinion is not correct. It may be argued that the stability of all securities has been affected. The mere fact that the recent agitation is against the owners of real estate may give a false feeling of security to others. An agitation against the enforcement of railroad or industrial bonds might deprive their owners of the right to collect as effectively as the present agitation against the owners of real estate.

The Supreme Court of Wisconsin, however, has recently held invalid laws of the state regulating rents in the city of Milwaukee. The court declined to pass, and expressly reserved the question of whether any such legislation could ever be passed, but held that the law, as written, was invalid, on the ground that it deprived the landlords of Milwaukee County of the equal protection of the law. This decision is a complete rejection of Justice Holmes' theory that the constitution does not protect against the exercise of police power, as the right to full protection of the law is no higher than the right to property guaranteed by the constitutions.

The questions discussed herein have not been submitted to attorneys for their opinions, and are merely laymen's views of the subject. The laws may cause considerable trouble and we believe that they should have the careful attention of all members.

Another subject which has been discussed is

#### EFFECTS OF TAX FREE SECURITIES ON REAL ESTATE PAPER

The majority of the members of the Investment Bankers Association of America have limited their dealings in real estate securities to bonds issued under the Federal Farm Loan Act. They regard these bonds as Government instrumentalities and have been attracted to them because of the alleged Government supervision of the loans; the distribution of risk; the convenient form, and the exemption from all taxation. These bonds have been regarded in much the same light as municipal bonds, rather than as farm mortgages. They have, for the most part, gone to large investors, because of their tax free privilege. Their low rate of interest in comparison with recent corporation and municipal issues, and the small profit accruing to the average dealer, has resulted in the situation that few of them have been put into the hands of the small investor.

It is an open question, in our judgment, whether the farmers have obtained as much relief as they should have had from the Federal Farm Loan Act, but the presence of the act, with its tax free feature, has curtailed the market for mortgages, and no other satisfactory manner has yet been devised for making farm mortgage



paper available to the multitude of small buyers. The capacity of savings banks for absorbing farm loans has been curtailed, and insurance companies and other large corporate buyers have been attracted to the purchase of other kinds of securities. One prominent member of the association who has conducted a farm loan business for over forty years, reports that, whereas his annual turn-over used to be about four million dollars a year it is now not more than \$500,000 annually.

It may be said that the activities of the non-partisan league in two of the northern states has destroyed the confidence of investors in any paper coming from those states, and has added to the acuteness of the situation in the northwest.

We believe that it is a recognized fact that the farming industry is undergoing a severe strain. Farmers, as a class, believe that they are discriminated against and are, in the main, discouraged and disgruntled. In view of this condition and these sentiments, and in view of the fact that none of us can be truly prosperous if our agricultural industry does not prosper, it is urged that all members of this Association give earnest consideration to the farmers' financial problems, and active coöperation in their solution.

The situation in regard to city real estate loans is well known to a large percentage of the Association. It is probable that there is still considerable housing shortage, but the industrial depression and the return of many thousands of men from the congested cities to the country has undoubtedly done something to alleviate the situation. There must be considerable building within the next year, and capital must be provided for the purpose. Efforts must be made to reduce the cost of materials as well as labor, because it is apparent that the present cost of building homes is prohibitive to the average citizen. Much credit is due the members of this Association who have devoted their attention to city real estate loans. They have for years concentrated their efforts to this form of business, and made their issues convenient in form and denominations, and at rates which would attract the small investor who is not subject to heavy income tax. These dealers have successfully met the competition of the higher rates recently offered by foreign governments and domestic corporations. Having had the wisdom to play for wide distribution among small investors, they have not felt the competition of tax-free securities in anything like the same degree as have the dealers in farm loans.

It is true, no doubt, that in many instances the borrower in the city has been able and willing to pay a higher rate of interest than the farmer.

In closing, we might say that your committee wishes to reiterate the statement that has been made so frequently upon the floor in recent conventions, that the present out-pouring of tax-free securities is a menace both to real estate loans and to all forms of business, and we believe it is the duty of the proper committees of this Association to continue their aid to secure a repeal of the amendments and certain laws which now permit exemption.

Respectfully submitted,

E. G. TILLOTSON, *Chairman*.

*Mr. Fox:* Now, gentlemen, there are two points which might be brought to your attention. The committee gave a good deal of thought to warning the members in respect to city real estate

paper that they should proceed with very great caution in the matter of weighing values. A loan which today represents fifty per cent of the cost of construction, if prices continue to go down, may, in the course of a year or two or three, represent 125 to 150 per cent of the cost of production. Consideration of that point is an individual matter with each dealer, but the subject is one that ought to be brought to your attention for careful thought.

The other is in respect to the country bank situation throughout the middle west at least. The high rates offered by foreign governments and corporations have attracted the investment of the idle funds of individuals in the small villages, to some extent on the farms and that has brought that money to the cities. At the present stage of the game the country banker finds himself unable to collect from the farmer and he has had to borrow money from his city correspondent and to rediscount wherever he could. The farmer has exhausted his working capital, and now he has to dip back into principal. The only effective way that we can see for him to dip into principal and pay up his country bank is by the borrowing on his part on his farm, which is his capital. The only vehicle at hand today that we can take advantage of is the bonds of the Federal Land Bank and the Joint Stock Land banks and although we are committed to an economic policy opposed to the issuance of tax free securities we have a situation that is practical to deal with and not a theory. We must get behind the Joint Stock Land Bank bonds, and the Federal Land Bank bonds, in order that we may permit the liquidation of the loans to the country banks that their loans from the city banks may be taken up and level up this strain on rural credit and rural capital today.

*The President:* Gentlemen, you have heard the analysis of the report on the Real Estate Securities Committee. You have also heard the comment Mr. Fox has made upon two principal situations discussed. Is there anybody who desires to ask any questions, make any comment or discuss the matter? He has opened a very broad field for you. Apparently, you have covered it, Mr. Fox. [Applause.] If without objection the report of the committee will be received and filed.

The program now brings us down to two subjects which will consume the rest of the forenoon session. They are very much allied, being Fraudulent Advertising and Legislation, which

principally comprehends Blue Sky subjects. Mr. Fenhagen, the Chairman of the Fraudulent Advertising Committee, I think, is ready to make his report. Mr. Fenhagen.

*Mr. Fenhagen:* Mr. President and Gentlemen, the work of the Fraudulent Advertising Committee is very closely linked with that of the Legislative Committee and particularly the Blue Sky legislation both of which subjects will be treated here later in the session. There are certain peculiar phases of the work, however, that belong to this committee and it is with these very briefly that our report will deal.

## REPORT OF THE FRAUDULENT ADVERTISING COMMITTEE

During the past year there has been a very much greater realization on the part of both investors and investment bankers of the sums of money lost through fraudulent promotion. Various efforts, from those of individuals to those of national legislation, have been made to cope with this increasingly difficult problem.

Your committee has been in receipt of complaints of members located in various parts of the country that certain promotions spread broadcast were fraudulent in their nature and misrepresented the facts. Efforts have been made to check these back to their source and the results have demonstrated to your committee that the very best results can be obtained by local groups, possibly with the coöperation of your committee.

Acting on this theory, all of the sixteen group associations have been asked to create Fraudulent Advertising Committees of their own organizations, and some have already done so. When these organizations are completed and functioning, any member may either write direct to such organization, or perhaps better still, to the Chairman of your Committee, who in turn, would take the matter up direct with the local association. Being on the ground and with the local atmosphere to help them, this committee could undoubtedly do better work than could the national committee.

As another effort to coördinate all of the various agencies now working for the betterment of financial advertising, Mr. Richard H. Lee, Special Counsel of the Vigilance Committee of the Associated Advertising Clubs of the World, was invited to appear before the May meeting of the Board of Governors, to tell of their work and suggest lines of coöperation.

Mr. Lee made a most interesting address, and after the meeting a working arrangement was made between his committee and your committee by which they could compare notes, and in which we would have thrown open to us the facilities and machinery of their bureau.

In passing, it might be said that Mr. Lee's committee has been doing splendid work, such as securing a number of convictions of fraudulent promoters, and has been the means of stopping newspaper advertising of many others who have been about to engage in such fraudulent advertising.

As already indicated, the large amounts obtained from innocent investors by fraudulent promotions has brought the attention of Congress to the subject and national legislation is now pending in the House of Representatives. While this subject will be treated by the Legislative Committee, which has spent much time and effort in the matter, it seems only proper to record the opinion of your Committee, that national legislation should be along the lines of a "Fraud Act" rather than along the lines of the so-called Denison Bill as introduced in Congress, which simply perpetuates and puts the national government behind the Blue Sky laws of various states. Many of these laws and regulations do not coördinate, and the passage of this bill would bring about an almost impossible situation in handling legitimate investment business.

There is an old saying taught us in childhood that "Unless you plant flowers in your garden, weeds will grow." The fraudulent advertisers have developed to a fine point the art of making their reading material and advertising a most attractive flower garden—unfortunately, the flowers are noxious. It seems to your committee that legitimate investment houses, could, within proper lines, take a lesson from the illegitimate investors, to the extent of making their advertising much more attractive in form and feature, while, of course, carefully guarding against the extreme, and sometimes undignified language of the fraud.

It so happens that we are fortunate at this convention in having a notable display of advertising of the investment houses, which will probably do much to draw this feature of the business to the attention of our members. But, we hope also, that these suggestions made here will lead to discussions on the floor of this convention that will put some new thoughts in the minds of many of the members who have not followed this branch of the business, and be productive of good results.

Respectfully submitted,  
J. C. FENHAGEN, *Chairman.*

*The President:* Gentlemen, I think it is only fair to say to the convention that the very brief and condensed report of the Fraudulent Advertising Committee is very modest, in that it does not begin to express the work that they have done, and I think at the outset of this subject that it is perhaps well to let some of those who have been active along definite lines tell the convention something of the things that have been accomplished. Mr. John P. Baer, I think, can give us some expressions on this matter. Mr. Baer.

*Mr. Baer (Hambleton & Co., Baltimore):* Gentlemen, whatever I might say I would preface by stating that for fifteen months it has been my great pleasure to be quite active in what I might term "vigilance work," rather than fraudulent advertising work. I agree with Mr. Fenhagen in his report that the best and most far reaching results can be obtained by the use of the Group Vigilance Committee. I am using the word "vigilance" rather than "fraudulent advertising" as "fraudulent advertising" is only a very small part played in the despicable work of the men now going about. The advertising might be by newspaper or circular, but it is more prevalent by telephone and word of mouth. Therefore, the "Vigilance Committee." There is no question in my mind that the investment banker, in his particular community, is the live wire of the banking situation in that community. It is up to him to handle this matter. In the first place, he is in very close touch

primarily with his newspapers. He either knows every newspaper man in his section or can become acquainted with him, and can secure beyond any question their close coöperation. Right here I want to make this very positive, that there is no group of men more anxious to coöperate in this work, than the newspaper men themselves. In my section our committee has really become a censor of newspaper financial advertising. When the newspaper in our section is in receipt of an advertisement they do not know anything about, they bring it to us to pass on, and I might say we do not give snap judgment on it, but we go to every source of information that we can relative to the advertiser or to the security before making a report to the newspaper. Our committee has also become more or less a bureau of information for the banks. More than anything else our committee has become what I might term a daily reception committee for the hundreds and hundreds of people who have been defrauded and the number who come to us is only a small minority of those who have been defrauded—most people do not care to tell about it when they have lost money; they are afraid their friends will laugh at them.

The investment bankers in this situation have a number of reasons for doing this work; first, for their own personal interest; second, to save deposits for the banks; and third, to protect the people who do not know how to invest, and are led astray by the glib tongue of some "bond artist" as we might call them. And what can these groups do to help along? They can organize but they must not have simply a passive committee. Such committees must be composed of men who are willing to work and who will work. The subject is a big one, and very much depends on it. Every executive and every employee in a house must become a natural scout to hunt up these rotten situations. We all have men who go over our own state and over the states close by us, live salesmen who are on the lookout for this kind of thing and if they make it their duty to report back to the local committees or to the executives of their house, a great deal of good will be accomplished in this work. In Maryland, and I think it is the same in every other state perhaps, our committee in the course of twelve or fifteen months has investigated about one hundred or one hundred and fifty cases of what seemed to be fraudulent work, (not fraudulent advertising as very few are now advertising)

fifty-five or fifty-six of these investigated cases have been driven out of the state by reason of the fraud act, or have left of their own accord as they knew they were under investigation and realized that they could not stand investigation. There are two ways of going about it, through the means of the Attorney-General's office, if it is operating under a fraud act, or by taking advantage of a "Blue Sky law." (Mr. Chairman I will not go into the respective merits of the Fraud or "Blue Sky Act" at this time.) There have been a number of cases that we found we did not care to take up with the Attorney-General, but which we took up with the State's Attorney, and had criminal indictment after indictment brought against men who were obtaining money under false pretenses, working under the guise of security sales.

Now, my recommendation is that now that we have "groups" that each group organize a vigilance committee, and that the latter in turn keep in touch with the vigilance committee of every other group, either directly or through the agency of Mr. Fenhagen's committee; give the name first of all of those they know are doing crooked work; secondly of those under suspicion; thirdly, give every new name which appears in their territory, by this means we can stop these men the moment they alight in outside territory. If we do not have this information passed from group to group, these men will have weeks in which to work before we get hold of them, and they are very secretive in their work, and time is a very essential element. There is no better work which each group can do than to give its time to this vigilance situation. I will cite two examples, but there are many others I know of, and what is applicable to Baltimore and to Maryland applies to all parts of the country. These men seem to run so far as I can make out to the very old and the quite young. It is the old or it is the experience of the old that gets under our skins, and instead of putting these fellows in jail, or drive them from the state, we feel sometimes like going out and licking them good and hard. We had a pathetic case of two old people. The man was about seventy-five years of age and the woman probably about seventy (Mr. Fenhagen doesn't know about this at all as I have not spoken about these things even to my local committee). These old people had accumulated just sufficient money to enable them to live off the interest the rest of their lives in a very quiet way. They owned the house

they lived in. In about two weeks or thirty days from the time they were first approached all their money had been taken away from them, and a mortgage placed on their house and which naturally was closed very shortly afterwards. Today these people are living in one of the "Homes for the Aged" in Baltimore, and the devil who got their money is having a pretty good time on it. The second case was that of an old woman, I don't know how old, possibly sixty-five, who had worked all her life, her son died and left one boy. She had just enough money to live on, but she was very insistent that the boy should go to school. The crook obtained every penny of her money and today she goes on duty at five o'clock in the afternoon and scrubs floors until 3:00 o'clock in the morning. The boy, through the doggedness of that old grandmother is going to school, but he works up until school time in the morning and from the moment he gets out of school in the afternoon. I know of several other cases where old people have been defrauded out of their money, and I know where they now work. Gentlemen, we have a very great duty to fulfill in this matter, and it is not simply for our own interest, but there is a much bigger situation, it is our duty to humanity to help the people who do not know how to take care of the money they have worked for all their lives and upon which they are depending in their later years. We *must keep* these damnable fellows from getting away with it and having a good time on it, while their victims suffer. [Great Applause.]

*The President:* Gentlemen, Mr. Baer might have gone further and told you that he was largely instrumental in organizing a corporation in Baltimore which has the support of the bankers and the investment bankers and the merchants, which is known as the Blue Sky Committee, Inc. This organization has been generously supported by the interest we have spoken of, and sufficient funds have been furnished it to enable it to conduct careful investigations and try to drive out of the state, under the Maryland fraud law all people of this kind whose activities have been brought to their attention. They are accomplishing an excellent work.

Just at this moment I would like to read a telegram addressed to the President from the Tampa Clearing House Association. It is as follows:



This Association has waged a successful fight against fake stock salesmen which prompts us to urge upon you the importance of a similar campaign throughout America, led by a committee appointed by you. You should ask the President of the American Bankers Association to appoint a similar committee to work in conjunction with your committee enlisting assistance of Clearing Houses, State Associations, Rotary, Kiwanis and Civilian Clubs, Chambers of Commerce and all Business Organizations interested in exterminating all fakers. Committees should be made permanent and supplied with sufficient funds to make fight vigorous and continuous. Bankers of America cannot undertake work at this time that will produce greater good for all the people.

TAMPA CLEARING HOUSE ASSOCIATION,

CHARLES A. FAIRCLOTH, *President*.

*The President:* Mr. Wendell, could you tell us something of the work that has been done in Chicago?

*Mr. Wendell* (Lee, Higginson & Co., Chicago): We have in Chicago, a similar association or organization to that formed by Mr. Baer in Baltimore. There it is really an off-shoot of the Chamber of Commerce and it is incorporated. We have had a man there who has devoted his entire time to this fraudulent work and the organization has been supported principally by investment bankers. He is connected with the Secretary of State's office, which administers the Blue Sky law, and there has not appeared for over twelve months in any Chicago paper any questionable advertising. These papers have shown wonderful coöperation in this work. I think the total amount which has been kept out, and I think I state it conservatively, is over one hundred and seventy-five million dollars. Today the *Tribune* and the *Hearst* papers have given up their investigating funds and the entire investigation work is done by this little group. We have had up there a local central states group on fraudulent advertising, or rather a committee looking after this work. We have not extended this work yet, as Mr. Baer has done in Maryland. We feel that a great deal is being done in this work against fraudulent advertising, and I think the next organization—we have a new election next week—the new management of that group can well afford to take up what Mr. Baer has suggested and change the form of that Committee from "Fraudulent Advertising" to more strictly "Vigilance Committee." Twenty-three men are

up this week in Chicago before the court where they are having a sort of session in chambers—no publicity is given to it. These men that we hire, and the prosecuting attorney and the judge, are going over the matter with these fellows to ascertain whether they broke the Blue Sky law through wilfully doing it or unintentionally doing it. The week before they had fourteen of them.

*The President:* Gentlemen, there is on the program at this point an announcement that discussion is to be led by Mr. N. Penrose Hallowell, of Lee, Higginson & Co., Boston. This is on the program through misunderstanding. It will be taken up this evening. Now we would be very glad to hear from other cities on this point, or from any of the groups, with regard to what is being done, if their plans are sufficiently formulated.

*Mr. Wendell:* I want to add to what I said a moment ago that the work being done by Mr. Davis in Chicago is very much appreciated in all other sections of the country. I see Mr. Davis two or three times a week—he is in my office and I go over there—and he has almost daily correspondence from local Chambers of Commerce all over the country. He has stirred up the Illinois Chamber of Commerce which is composed of the little chambers of commerce all around, and it extends even away down in New York State. He is consulted over and over again by these people, who ask whether he has heard of this thing or that, and so forth and so on. If the people will go back to their various localities they won't have any difficulty in interesting large numbers of people, thus inducing them to make the reports asked for by Mr. Fenhagen.

*The President:* Gentlemen, at this point I think it would be well to have the discussion on the Legislative Committee's program. Mr. Beebe.

*Mr. Beebe* (Harris, Forbes & Co., New York): Mr. President and Gentlemen, the Legislative Committee report, I think, can be practically dispensed with by a series of comments. The work of the committee is not of the spectacular kind. As a matter of fact, a large portion of its work during the past year, as in previous years, has been in coöperation with various other committees, the actual work as done by those committees being covered by the reports of the respective committees. However, the Legislative Committee has concerned itself almost continuously during the past year with this so-called Blue Sky and Fraud legislation in the

various states and in Washington. The situation in Washington, you may remember, was with a so-called Fraud Act which had been introduced and referred to the Judiciary Committee of the House. We were asked to coöperate in the passage of that Act and to help in any way we could to draw a workable Act. However, we found great difficulty in getting any assurance that the administration of that Act would be so placed as to make it of any value whatever, and we felt it would be a serious mistake to pass such legislation until we could be assured that when it was on the books it would have proper attention. The Washington authorities have been interested in the subject continuously, and the Bill which was introduced last year was redrawn and was introduced and is now lodged with the Judiciary Committee and is waiting largely on the disposition of other legislative matters in Washington before being brought forward again. In the interim there was introduced a Bill which is popularly termed the Denison Bill, which is, in effect, an attempt to pass to the Federal Government certain phases of the Blue Sky Acts of the various states. Now, this Association from the very first has had no quarrel with the attempts of those who have tried to find some way to stop this evil. The remarks previously made with reference to this subject indicate clearly that there is a crying need of some action of a definite nature along these lines. The only differences we have are as to how best to accomplish that purpose and at the same time interfere as little as may be with legitimate business interests. On that point we have had a serious difference of opinion. As Mr. Fenhagen's committee has reported and our Board has reviewed, our opinion is that there is a better way to handle this thing, and we still believe that it is best to handle this situation by calling it just exactly what it is—fraud and swindle—and to approach it from that angle.

Our President has recently had occasion to appoint a special committee of which Mr. George W. Hodges is the Chairman, to confer with the Committee on Interstate Commerce of the House to see if in some way we could coöperate with the sponsors of this latter measure in the attempt to redraft it in such a way that it at least would not be objectionable to the interests of legitimate banking. Mr. Hodges, will, I hope, speak to you on that subject and I think will present a resolution, a resolution which will require some action on your part so that the officers of the Associa-

tion as well as those with whom we have to deal will understand that when we speak we are speaking for the whole membership and not a comparatively few. We might speak very briefly on this situation as it confronts us in other than Federal matters. The District of Columbia has been infested with objectionable offerings and the claim is made that the activities of our friends in Maryland under the Fraud Act in that state has stimulated their activities in the District of Columbia. In other words they do not find it profitable or safe to operate in Maryland but they do find it profitable to continue their operations in that nearby point and it is probable that that situation will bring about some form of a fraud act in the District of Columbia.

In Massachusetts, following our annual meeting at Boston, the officers of the Association, Mr. Osgood, Mr. Hodges and several others, were requested to appear before a special commission appointed by the then Governor, Governor Coolidge, to look into this situation and we gave such testimony as we could respecting the experiences of our own Association and members, and what we had learned in other sections. The bill, as drafted finally, after having had a number of hearings and an opportunity for our own members to appear and make suggestions, is really a combination of the so-called Blue Sky type of legislation and fraud act as well as having a registration feature. The law has not been in operation long enough yet to have given any fair evidence of what may be expected under it. It is however of interest to know that practically, I think, the first time the administration of the act has been lodged in a body and with men who have had by a previous experience some fair understanding of what makes a good security and what makes objectionable and fraudulent offerings.

The subject was up again in Connecticut but nothing definite was done. In the meantime there has been a sort of rejuvenation of a local association there known as "Connecticut Security Dealers Association." Your committee has been in close communication with this Association and as the majority of the members are also members of our own organization I have no doubt that we will have an opportunity for making suggestions in case any law is seriously considered there.

In New York State we reported last year that legislation was pending in that state. It was finally passed, and the bill was

signed by the Governor. It is a little too soon to know what we may expect from this act. It is a fraud act but it has some decidedly new features. Officials have claimed under the criminal statutes that they had great difficulty in proceeding before an actual crime had been committed. They had no power to secure evidence or information which would warrant them in taking action until the damage had been done. This Act provides a means by which the Attorney-General or his deputies may force the giving of such testimony. A recent report from the Attorney-General of the State indicates on account of pressing matters he had practically taken no definite action himself, but he has just appointed a deputy who is to give his whole time and attention to this matter. We feel in New York, those of us who are quite active in these matters, that our own local group can be a great help in seeing to it that the new act receives the necessary attention and that it is actively administered. While I am not in a position to say what the Group has done in the matter I feel sure that we can count upon them for some very energetic coöperation along those lines.

In Pennsylvania the matter has been up again and out of a mass of suggestions, some of them more or less in conflict in different sections of the state, nothing was done, and it was decided I think to the satisfaction of everybody in the state, to let the matter lay over. It will mean that the matter will not come up for legislative consideration for another two years.

There is a development in Pennsylvania which I think it well to comment on in an effort to stop the evil. There has been an attempt on the part of various municipalities to license every dealer who is offering securities in each community. The fees are not in any single instance of any great moment, but they are a nuisance, and if they were multiplied by every community of any size in the state they would rapidly become a serious problem for any dealer who cared to operate within the state. The local groups are giving that matter attention but I am afraid that they are without any power to do away with these acts except in so far as we can induce the officials to see that the matter is working an injustice. Certain features of these acts certain counsel have stated are an interference with the rights of a dealer under the interstate commerce rulings and law and the Constitution.

Mr. Wendell has commented on the Illinois situation. Our members there I understand have been in very active coöperation with the officials ever since the law was put into effect some two years ago. Following the suggestions made by those who have been most actively interested in the matter in Illinois, there were some 19 amendments, of which 13 were suggested by our own associates, which were passed. All of these tend to make it easier to do business on the part of legitimate business in the state. It is interesting however to note that the tendency is along an extension of the exemptions. In other words, as these men who administer these laws get into this subject they find that there are more and more securities that are of such a nature that they are not suspicious issues, if you want to call it that, and while that alleviates the situation from the standpoint of our own members it does not change the fundamental fact that we still feel that the same thing could be accomplished in a better way and cheaper way through a different type of law. It is well to note that as Mr. Wendell has stated, the press in Chicago has coöperated to such an extent that a great deal of the objectionable advertising matter has been eliminated from the press and that has accomplished a great deal of good. I also understand that they have had about the same situation in Illinois as they have had, we will say, in Maryland, that is, that the activities of the authorities in Illinois have tended to drive the activities of the crooks beyond the limits of the state.

In Indiana the situation is anything but satisfactory. Those of our members who have been most closely in touch with the situation there feel that the Commission's regulations, not the law itself, under this act are of such a nature that it makes it practically impossible for any dealer outside to conduct his business in the state except in those issues which are excepted from the operation of the law. So I can say that the situation at the moment is so impracticable that it must become evident to the officials and the people of the state, and so lead to radical changes.

In Iowa a bill was introduced of a very drastic nature but it was defeated and the present law through the registration feature and the filing of a bond makes it comparatively easy for any legitimate dealer to continue business within the state.

In Missouri it is reported that the present act is a dead letter and that the activities of the criminal element are such that it is entirely likely that some new type of bill will have to be forthcoming. I am told that the tendency of the time is to make an adaptation of the Illinois law and try it out in Missouri.

In California our members report that the present act is working quite satisfactorily. As a matter of fact here again it is a matter of administration rather than the act itself and the coöperation of all legitimate banking interests and the press has been such that they claim that the results have been really very good.

In Georgia we reported last year, you may remember, that a bill had been passed and signed by the Governor without the knowledge of your Committee or in fact of apparently any investment interests. It simply is an impossible statute and the commission charged with its administration has apparently arrived at that same point of view. They in effect invite legitimate people to come in there and do business and promise that they will see to it that they are not burdened or interfered with. But that does not relieve a dealer who does offer bonds in there without complying with all the provisions of the Act from the penalties which might accrue under that act and I think it behooves every member to be careful how he deals in Georgia except in those securities which are exempt from the provisions of the act.

We have, of course, appreciated right along, and that has been our purpose in going to Washington in this matter that uniform legislation in the various states, some general statute, was advisable. Through the courtesy of our office counsel, Mr. Chapman, we got in touch early in the year with the committee on Uniform Legislation of the American Bar Association and had quite a conference with them. They were not prepared at that time to act, I imagine they were without authority to agree to any definite action, but they did appoint a special committee and that special committee was to report back and it was very evident that the members of the committee were quite in sympathy with our ideas on the subject and that they were individually in favor of some uniformity or whatever uniformity was possible on this subject. I have been informed recently by Mr. Hodges who met and talked with one of the members of that committee that unfortunately they have not taken any definite action. They had I think a meet-

ing recently in which it appeared they were not ready to report back on the matter to us.

I do not think there is any need in bothering you any further with this formal report and I am sure that you will be very much interested in what Mr. Hodges has to say about the situation at Washington which is the matter that is taking more of our time at the moment than any other phase of the subject. Gentlemen, I thank you. [Applause.]



## REPORT OF COMMITTEE ON LEGISLATION

Many of the activities of the Legislative Committee are in coöperation with other committees and will be covered in their respective reports. This report, therefore, will be confined largely to legislation dealing with the control of the offering of securities.

In 1920 there was introduced in the House of Representatives a bill looking to coöperation with the various states in stamping out the offering and sale of fraudulent securities. It was referred to the Judiciary committee of the House, and because of divergence of views was not reported out for consideration by Congress. A new bill known as H. R. 7868, following the fundamental ideas of the bill of the previous year was referred to the Judiciary committee where it is having consideration. Our members were made acquainted with the situation and a copy of the proposed legislation has been distributed through the medium of the BULLETIN. This bill embodies what the Association has repeatedly adopted as the correct fundamental principle of security control legislation, i. e., the stamping out of fraud and misrepresentation and the punishment of those who willfully disobey the law. Your committee is still of the opinion that it will accomplish more with an equal expenditure of time and money, and with the least interference with legitimate business than any other type of legislation which has been suggested. Under this year's bill it is proposed to place the administration through the Treasury Department, with the Federal Reserve Banks, the prosecutions under it being conducted by the Attorney-General's Department.

There has also been introduced in the House by Mr. Denison of Illinois, (H. R. Bill No. 7215) which in effect would enact as Federal Legislation all the Blue Sky laws of the various states and the rulings of the various Commissions thereunder. While the bill no doubt was designed to effect only those dealers who are willfully disobeying state laws, it is in its present form likely to be very serious to legitimate dealers. This bill has been referred to the Committee on Foreign and Interstate Commerce of the House of which Mr. Denison is a member, and the officials of the Association have appeared before that committee and explained at length why the bill in its present form was an inadvisable piece of legislation. Mr. Denison and the Chairman of his committee have stated that they will welcome any suggestions we have for improvements in the bill, and acting thereunder your President has appointed a special committee which has been conferring further in the matter and the latest reports are to the effect that any menace to legitimate dealers will be removed. It is likely that our suggestions will be accepted to the point of making the bill one to which we can lend our support as being a constructive piece of legislation.

### DISTRICT OF COLUMBIA

Recognized investment bankers and banks in Washington have complained for some time of the activities of the fakers and swindlers and have contended that since the enforcement of the Fraud Act in Maryland many of those who heretofore were operating in that state had transferred their activities to the District. It, therefore, seems likely that legislation will be necessary to control the objectionable conditions present there.

## MASSACHUSETTS

Following upon the report of the Special Commission appointed by former Gov. Coolidge a bill which is a combination of the Blue Sky type, Fraud Act and Registration Act has been passed. Our Association has coöperated in every way possible in the matter and the individual members in Massachusetts had an opportunity of being heard and of making suggestions. As has been the case wherever the Blue Sky idea has prevailed the law is very long and complex and is bound to be most difficult of practical application. It has been in effect only about two months, in which time the only notable headway has been in getting the regular dealers in securities to comply with the registration provisions of the Act. Were it not for the liberal exemptions on standard securities of recognized worth it would seriously interfere with the ordinary course of business, but there is every reason to believe that it will be enforced with due regard to the interests of honest business. We are informed that already there have been several differences of opinion between the Commission and those having to comply with the provisions of the Act but which have been worked out apparently to the satisfaction of all parties. It will be very interesting to watch the results attained through the enforcement of this law as its administration is in the hands of the Public Utility Commission—a body which has a good working knowledge of investment security matters. If this type of legislation is to be successful in its object it should be attained under all the conditions existing in Massachusetts.

## CONNECTICUT

Nothing further has occurred in this state but if any further efforts are made to pass legislation we will have an opportunity of being heard together with the Connecticut Security Dealers Association, whose membership is made up largely of those in our own Association.

## NEW YORK STATE

The last annual report dealt more or less at length with the situation existing in this state. A bill was finally passed of the Fraud type giving additional powers to the Attorney-General of the state. It is too soon to predict results from it as the only activities to date appear to have been the appointment of a special Deputy Attorney-General to take charge of cases coming within its scope.

## PENNSYLVANIA

Serious consideration was again given to this matter in the State of Pennsylvania, but it was finally decided to take no action at this year's session of the legislature so that the matter will have to go over for another two years, with the prospects in favor of very open-minded consideration of the various means which might be taken to curb the evil of fraud in the sale of securities.

Under the guise of protecting the public, but probably more because of the opportunity to get a little revenue, several of the communities in the state have

passed local ordinances requiring the registration of dealers and the imposing of a fee. Counsel have held that the application of these ordinances to those doing a wholly interstate business is probably contrary to the U. S. Constitution. The subject is important only from the standpoint of its possibilities for nuisance and expense to legitimate business through the multiplicity of similar ordinances in all of the various communities. Both the Eastern and Western Pennsylvania Groups of our Association are aware of the situation and inform us that the matter is having their attention.

#### ILLINOIS

Our members who are active in this state have continued to cooperate with the authorities in making the act accomplish the purposes for which it is designed. No less than nineteen amendments have been passed this year, most of them at the suggestion of the members of our Association, which make it very much easier to operate under the provisions of the law. It is interesting to note that these amendments have to do very largely with an enlargement of the exemptions under the law, and that apparently more and more dependence is being placed upon the registration clause of the act.

The press has cooperated in the suppression of a large amount of objectionable advertising matter.

#### INDIANA

The Commission's regulations under the new bill in this state are of such a nature that it makes it impracticable for any dealer to try to do business in the state in other than the excepted securities. The bill's chief merit, if it may be regarded as one, seems to be in the possibilities of revenue for the state and until radically changed it will probably result in a large portion of the investment business being done outside of the State of Indiana.

#### IOWA

A bill was introduced early in the year of a very drastic Blue Sky type but was defeated, and with the present law, through the registration feature and the filing of a bond it is comparatively easy for legitimate dealers to carry on their business.

#### MISSOURI

It is reported that the activities of swindlers are going to make it necessary to have a new type of Security Act of some kind, and in all probability it will take the form of an adaptation of the Illinois statute.

#### CALIFORNIA

We have been advised that through the very able administration on the part of the officials, and the cooperation of the investment banking interest, as well as the press, very satisfactory results have been secured in stopping fraud and misrepresentation in the offering of securities. Because of the satisfactory results ob-

tained it is apparent that our members in California are satisfied to retain the present form of Act.

#### GEORGIA

As reported last year a bill was passed and signed by the Governor, without knowledge of the committee or apparently anyone familiar with investment security matters. We understand that the Commission has found it impossible to actively administer the law, and so far as we have been able to learn none of the legitimate security dealers are attempting to do business in the state except on securities exempt from its operation. The commission evidently has no intention of working a hardship on legitimate business interests. Nevertheless anyone violating the provisions of the act would make himself liable to a very serious penalty.

Through the courtesy of Mr. Theodore Chapman, our Counsel in Chicago, we had a conference with the committee on Uniform Legislation of the American Bar Association, in February, at which the subject of security control legislation was gone into at length and they have appointed a special committee to study into the matter to see if there is anything they could do to help in unifying the statutes of the various states so as to avoid the present confusion, expense and trouble, now entailed. We are quite sure this very representative body is in entire sympathy with our Association's ideas in the matter, and that we can expect some substantial help from them, although they are not as yet prepared to commit themselves to any definite action.

Respectfully submitted,

HOWARD F. BEEBE, *Chairman.*

*The President:* Gentlemen, before going into a discussion of this situation regarding which we would like to have free comment from the members on the floor, I want to say that we were very fortunate this last year in having the fullest and most active co-operation in our work on this general subject of the American Bankers Association. Those of you who recall the activities of the Capital Issues Committee and the conservation work that was accomplished by it during the war period also recall the fact that Mr. John S. Drum, who was the Secretary of the Capital Issues Committee was last year the president of the American Bankers Association. He came into the Association with a definite and a practical knowledge of the whole subject from not only the standpoint of the public but the standpoint of the people whose duty it is to carry on the legitimate financial enterprises of this country. Mr. Drum at the very outset of his administration appointed a sub-committee of what is known as the Economic Policy Commission of the American Bankers Association to take up with us this particular matter. We have received great benefit from the counsel that has been given to us and the work that has been done by that

subcommittee and by the Economic Policy Commission. I am not going at this time to attempt to discuss the general character of House Bill No. 7868 known by us as the Federal Fraud Act which was prepared under the joint auspices of the committees of the two associations. Succeeding Mr. Drum, Mr. Thomas B. McAdams, of Richmond, became President of the American Bankers Association and Mr. McAdams has appointed Mr. M. A. Traylor, the President of the First Trust and Savings Bank of Chicago, who is Chairman of the Subcommittee of which I have just spoken, to represent the American Bankers Association at this convention and to present the formal action which was taken by the American Bankers Association at Los Angeles and to present the matter to you from their viewpoint. Mr. Traylor. [Applause.]

*Mr. Traylor* (First Trust & Savings Bank, Chicago): Mr. Chairman and Gentlemen: Notwithstanding the great misfortune of the New Orleans Country Club I know where your hearts are and I am going to be just as brief as possible. I had in my mind a number of pleasantries which I hoped to indulge in because of the close relationship of your President and myself. I have always known he was generous and gracious in business. I now find he is equally so as a presiding officer, and I am proud as his associate that you gentlemen recognized his merit in making him President of your Association. [Applause.] I want to acknowledge that whatever I may say for the American Bankers Association in the matter of Blue Sky legislation or, for that matter, upon taxation, or practically any of the present day problems that I might speak on I am but voicing the wisdom of Roy Osgood, because he is the man who has done the work of investigation and study.

I want to greet you as a representative of the American Bankers Association because I was asked to do it that way. I am a member of the American Bankers Association but I am also a member of the Investment Bankers Association of America of which I am equally proud, and in talking to you, while I shall speak as a representative of the American Bankers Association, I want to talk to you also from the same standpoint that I hope you view these subjects, because I view them from that of an investment banker as well.

The American Bankers Association is as heartily interested in this great problem as you, because, after all, the commercial banker

and the investment banker sustain to the public exactly the same relationship in the matter of the conservation of the accumulations of the American people, their clientele. If you have ever analyzed the relationships of the commercial banker or the savings banker with those of the investment banker you must have recognized the similarity of their responsibility. I was interested in what Mr. Baer said on the subject as to what that relationship is. Beginning in the commercial banking department, for there it is that banking connections are usually first established, it is interesting to follow its development; it may be a very small beginning, a very small checking account representing a few hundred dollars, but representing the business prospects of your customer, as that business flourishes up and down you watch that bank account flourish and you base your loans upon his prospects and upon his accumulations. By and by he begins to deposit in your savings department, and then his workers begin to deposit in your savings department, and you begin to see the savings accumulate, and grow from the beginning of that little business, and as that goes on and on you can see both the business account and the savings account accumulate, and the credit standing of the industry grow day by day. Your relationship as his commercial or savings banker is to keep your own institution, your own house, in such order that the interests of your client are never jeopardized; but the commercial banker's responsibility or the savings banker's responsibility is probably not so great looking to the future of that client as is the investment banker's because the relation of the commercial banker and the savings banker is usually to the client in his earlier years and his smaller beginnings, in his period of prospects and activity as an individual, but when he has reached a later period of life and when his accumulations have brought him into the list of investors then it is that you gentlemen or that we, as investment bankers, begin doing business with him, and if we make a mistake as investment bankers in the securities we sell him, or if we permit fraud in the disposition of the securities that take from that same client who began with us as a commercial banker, the savings with which he had prepared himself for retirement and easy life in old age we have crippled him at a time and in a way from which he never can recover. So our interests in these propositions are identical both as commercial or investment bankers, and it was un-

doubtedly this interest that prompted you gentlemen early in the game to take up the question of fraudulent representation in the distribution of securities, or the distribution, if you please, of fraudulent securities.

I confess my temerity in undertaking to discuss Blue Sky legislation with you because frankly my own knowledge of the situation is so much more recent than yours that I feel anything that I may have thought or may say is so familiar and so threadbare to you that I hesitate to express some very forceful views which I have on the subject. Probably and as Mr. Osgood suggested it, I should just here tell you what the American Bankers Association's interest in this subject is and just what they have done. This action, gentlemen represents not only the report of the subcommittee of the Economic Policy Commission of the Association but also the action of the body itself through their resolutions.

#### ECONOMIC POLICY COMMISSION REPORT

The Economic Policy Commission of the American Bankers Association in its report to the Annual Convention of the Association at Los Angeles, October 3-7, 1921, on the question of supervision over security issues said:

"The Commission endorses the principles embodied in H. R. 7868 known as the Federal Fraud Act, which was introduced in Congress in July as a result of the joint activities of the Economic Policy Commission and the Investment Bankers Association of America. The bill provides for the appointment of a securities committee by each of the Federal Reserve Banks. Each committee is to keep informed as to securities sold or offered for sale within its district. If it is found that in the sale or offer of securities involving use of the mails or other interstate or foreign commerce agencies, fraud is being practiced, the committee shall report to the Attorney-General who may make an investigation. The Attorney-General may also proceed upon complaint from sources other than the committee. Under the bill the Attorney-General may issue an order requiring the cessation of fraudulent practices. This order, which is like an injunction, is subject to review by a Federal District Court, and there may be an appeal from the court decision made upon such a review. Disobedience of the

order constitutes a crime under the bill and renders the offender subject to a maximum fine of \$10,000, or a maximum imprisonment of ten years, or both fine and imprisonment. The Act does not repeal, but is supplementary to state blue sky laws.

"The Commission feels that an Act of this nature, which is similar in principle to legislation recently adopted by some of the states, notably New York, Maryland, and New Jersey, would offer ample machinery for curbing the fraudulent dealer, without at the same time unduly burdening legitimate business. The Economic Policy Commission believes that H. R. 7868 would not throw upon the Federal Reserve System duties not related to it; because the fundamental object of the Federal Reserve System is to insure the solvency of the banks of the country and to prevent a needless dissipation of the liquid funds available. Any measures which aim to protect the banks by assuring them that the investment resources of the country are not wasted by being used for the purchase of fraudulent securities must be of great concern to the Federal Reserve Banks. This is especially true because so large a proportion of the funds in question are at present invested in government securities. The Federal Reserve Banks are at the present time the fiscal agents in their respective districts of the Government in the distribution of both long and short term government securities. It is a notorious fact that the original holders of these securities are being constantly solicited by dealers in fraudulent issues to exchange their sound securities for worthless ones. This has helped to depreciate the market value of government securities and thereby has added another difficulty to the proper and rational financing of the Government. The Federal Reserve Banks have, therefore, a definite and direct interest and duty in protecting government obligations.

"The Commission, while endorsing H. R. 7868, wishes to express its complete disapproval of H. R. 7215, known as the Denison Bill. The Denison Bill is a fair representative of that class of remedial legislation which the commission condemns. Because a certain evil develops, attempts are immediately made to pass legislation so stringent and so extreme that its effect will be to injure legitimate business even more than it will check the fraudulent practices which it is intended to prevent."



Following this report a resolution was adopted, general in its character because of a suggestion that we did not want to complicate any negotiations going on at Washington, which said:

"Federal supervision over the issue of securities is urgently needed to protect the people against unscrupulous promoters, who are yearly robbing them of millions of dollars which might be directed into productive channels, but we are opposed to restrictive legislation of such character as would interfere with the marketing of sound securities." That, gentlemen, is the position of the American Bankers Association as expressed in their recent meeting. ~~It is~~ The practice of fraud is as old as recorded history. There hasn't been a time since man inhabited the earth that fraud has not been a part of the make-up of some individual. Just before coming down here I ran across a little poem by Kipling who recognized the age old practice of fraud and at the risk of taking more time than it should I am going to give it to you, because it is exceedingly apt in the present day. It says:

"We are very slightly changed  
From the semi-apes who ranged  
India's prehistoric day;  
Whoso drew the longest bow  
Ran his brother down, you know,  
As we run men down to day.  
'Dowb', the first of all his race,  
Met the Mammoth face to face  
On the lake or in the cave;  
Stole the steadiest canoe,  
Ate the quarry others slew  
Died—and took the finest grave.

"When they scratched the reindeer-bone,  
Some one made the sketch his own,  
Filched it from the artist—then,  
Even in those early days,  
Won a simple Viceroy's praise  
Through the toil of other men.

"Ere they hewed the Sphinx's visage  
Favouritism governed kissage,

Even as it does in this age.  
Who shall doubt the secret hid  
Under Cheop's pyramid  
Is that some contractor did  
Cheops out of several millions?  
Or that Joseph's sudden rise  
To Comptroller of Supplies  
Was a fraud of monstrous size  
On King Pharaoh's swart civilian?

"Thus, the artless songs I sing  
Do not deal with anything  
Now or never said before.  
As it was in the beginning  
Is today—Official sinning,  
And shall be for evermore!"

—Kipling

Kipling, with his usual thoroughness, seems to have covered the entire territory. Fraud has always been practiced, is practiced now, and most likely will continue to be so long as the human animal is as at present constituted. Accepting this fact as true, what should be the remedy, and how should it be applied?

As I understand it, our position is, and I believe our Blue Sky commissioner friends agree with us, that we want to detect, prevent and punish fraud in the distribution of securities. Agreeing as to what we wish to accomplish, we differ immediately and radically with our commissioner friends as to the method by which the desired results may be achieved. Those of us who represent the American Bankers Association and the Investment Bankers Association of America believe that the end can be accomplished by the proper application of a simple statute of fraud. While our so-called Blue Sky friends would reach their end by a system of regulations through Governmental agencies, which in our judgment would further complicate, hinder and disturb the free distribution of securities and the natural flow of investment business. As a warrant for our opinion, let us consider the view point of the Security Commission of Minnesota expressed in 1918, and which so far as I know has not been criticised by the Association of Blue

Sky Commissioners. In that report the Minnesota Commission said:

"The purpose of the law as stated in the preamble is to prevent fraud in the sale and disposition of stocks, bonds or other securities. The term fraud as here used does not have reference to premeditated fraud alone. It includes transactions which are fraudulent in effect even though bad faith is not present. Just as much money is lost through the failure of bona fide but misguided business ventures as through out and out frauds. In either case the stockholder generally loses. Both should be prevented as far as possible and this was the object of the law.

"The primary question before the commission in every case is whether or not the sale of the particular security is fraudulent or will work a fraud on purchasers thereof. The commission has interpreted the law to mean that the sale of a security is fraudulent, or tends to work a fraud on the purchaser if the latter does not have a fair chance to gain by his investment. It is not sufficient that the money invested is secure against loss. There must be a fair chance to gain. What is a fair chance will, of course, depend upon the circumstances of each case."

If this expression means anything, it certainly means a character of regulation by Governmental agencies which would run directly counter to the proposition that we should have less Government in business, which I believe is now almost universally accepted as fundamentally sound; and so far as I, personally, am concerned, I want to say emphatically, and I believe you should say as an Association, that we are unalterably opposed to the further extension of any character of Governmental regulation of business enterprises.

Let us for a moment analyze the statement of the Minnesota Commission. They say "The term fraud as here used does not have reference to premeditated fraud alone." Can it be possible that they contend that there is such a thing as criminal fraud without first a preconceived purpose and intent? Fraud, so far as I know, consists in taking, or attempting to take, from another that which is his without giving value received in return. In my

judgment that is never accomplished by accident, but is always the result of well laid schemes skillfully carried through. They say further that "just as much money is lost through the failure of bona fide but misguided business ventures as through out and out frauds, and in either case the stockholder generally loses. Both should be prevented as far as possible and this was the object of the law." If it is conceivable that such accomplishment was the purpose of the Minnesota law, then in my judgment it clearly follows that by the exercise of the regulations necessary to carry out that law it would become at once possible for the Commission of Minnesota to absolutely throttle business ventures in that state, since they would have it in their power to conclude that any proposition submitted to them did not have a fair chance to succeed, and that no matter how fundamentally sound the undertaking might be, there would exist always the possibility that through bad management or other causes it might fail and therefore its securities should not be sold.

If they can tell you gentlemen first what you can sell, and then tell the investing public what they may buy, then how much farther is it before they can tell, through the same principle, the commercial banker upon what security he shall loan his money and under what terms and conditions, and how much longer will it be before they will tell us what character of proposition we shall finance, because, after all, what is the difference between the loan I make as a commercial banker for the promotion of American industry and the loan made through you as the representative of the investor? In its final analysis there is not a bit in the world. If there is any difference at all, because of the trusteeship I assume over funds deposited in my care there should be greater restrictions upon the character of loans I should make as a banker than through investments of the funds I have accumulated myself. The Commission has interpreted the law to mean that the sale of securities is fraudulent or tends to work a fraud on the purchaser if the latter does not have a fair chance to gain by his investment. In their minds the test of the securities to be distributed by you gentlemen depends upon the gamble of whether the purchaser has any chance to gain or not. Now listen to this: They say "it is not sufficient that the money invested is secured against loss." What are you going to do with your Liberty Bonds? Will anybody question, if you please,

that fraud was practiced in their sale or that they were not sold in a righteous cause and were honestly floated, and yet if this test had been applied the chances are that their sale would have been prohibited in Minnesota, because it was apparent to any of us who distributed Bonds during the war that those Bonds would not be maintained at their par value. It was as patent as any fact we ever faced. They are good for one hundred cents on the dollar, but, they say, there must be a fair chance for gain. This theory is so idiotic to me as to be unworthy the dignity of argument, yet it represents the dictum of a legally created body acting under the statutes of a sovereign state, and if the Denison Bill, were enacted would be a part of our Federal law. I don't know what this Association wants to say, but so far as I am concerned I want to say that the principle of the Denison Bill is the most dangerous pronouncement that has been made in legislative halls in my memory. Not only does it attempt to federalize the thirty-eight or forty state Acts and State regulations, but it goes much farther than that and gives to State legislatures and State commissions the power of federal legislation, because whatever Act is hereafter passed and whatever rule or regulation is hereafter made, if the Denison Bill is adopted, the minute it became a law or a regulation it would become federally a law as applied to interstate commerce in securities. Can we conceive of a more dangerous principle than that? It is the eighteenth amendment run riot. It is more dangerous to the future of this country, that is, the establishment of that principle, than is the eighteenth amendment as much as that is objected to. That is my candid judgment. So far as I am concerned and so far as the Economic Policy Commission of the American Bankers Association is concerned our purpose is to fight that principle of legislation, no matter what the results may be. They propose to give the purchaser a fair gambling chance for his white alley. He must have a chance to gain, but that is not the test at all. They forget what they started out to do, to detect, prevent and punish fraud, and that is as far as they have a right to go. I cannot believe that anything that I might say, will add one bit of weight to your consideration of this subject. I have said to you the principal thing I want to say, that the danger is in the principle of legislation, and that being the American Bankers position, we propose to fight it out on that principle, realizing that

sometimes by opposition rather than by conciliation, we temporarily get the worst of the deal. But there are fundamental laws and fundamental propositions which never change. You should be governed today in my judgment as the Economic Policy Commission of the American Bankers Association this year will try to be governed by just one thing, and that is the discovery and recognition of the sound principles of economics which will permit you to think and act and speak upon the problems of today in the manner that in two years or five years or ten years from now you shall wish you might have thought or spoken or written. If you do that, and that is going to be the purpose of our association, if we can do that, it is as certain as fate, that our work will not be in vain, though we may be defeated temporarily and from time to time by fallacies of one character or another which will find expression in state and national legislation. It is the history of Governments ever since they have been organized, in a crisis like the present, that there has been a tendency to pass some kind of governmental regulatory legislation, but in the end they have all failed, and only those in life during the crisis have been remembered who have been able to differentiate between the prejudices and fallacies of the moment, and the fundamental economic principles underlying government and business which do not change with time and place and which cannot be abridged by legislative action or be defeated by any kind of governmental dictum or regulation. That is what I want to see the Investment Bankers Association of America do. I want to be connected with the American Bankers Association's activities and the Investment Bankers Association of America's activities, just as long but no longer than they, through their committees and through their organizations stick to these principles that cannot be and that never have been and never will be defeated by any kind of isms or fallacies that spring up in times like these.

A day or two ago I think it was in *Pepper and Salt* I saw a little poem or rather a rhyme that to my mind is a great deal better logic than poetry. It said:

Beset by ills and isms rife,  
 Its troublous Times these be;  
 And there's plenty of reasons why  
 The End we cannot see.

But Faith in principles aged and old  
Will triumph, certain, sure,  
When men no longer seek  
In vain, the Legislative Cure.

I want to thank you very much for your attention, and I want to leave with you this thought that we don't want to forget principle. Don't compromise with principle for any temporary gain you may make today or tomorrow. If we are right, if we want to detect, prevent and punish fraud instead of fostering upon this country not only forty-eight regulations, but a federalized agency as well, let us fight for that principle and not be led away by compromise or concession. If you do this in the years to come the Investment Bankers Association of America will have much smoother sailing than if you now temporize with or sacrifice that principle. [Great Applause.]

*The President:* Gentlemen, I don't think there is need of any remarks from the Chair toward elucidation in reference to the position spoken of, and where the Economic Policy Commission and the American Bankers Association are going to stand. I think we appreciate very much not only the coöperation that has been given us, by that great association, but by their courtesy in having Mr. Traylor come here and speak to us so forcibly and logically upon this subject. I appreciate it very much because Mr. Traylor and I are close business associates and we have no trouble in making our views meet on these particular propositions. At the time of the last convention the so-called Denison Bill had been introduced in Congress and had been referred to the proper committee in the House of Representatives. There it had lain without action. Following our custom in matters affecting our Association in Washington, our counsel made formal request of the chairman of the committee prior to action being taken by it in regard to the bill, that we be given an opportunity for a hearing.

In June the Committee decided to take the matter up and representatives of this Association were invited before the committee. The matter was considered in committee several times and several weeks ago the committee decided, or rather the Chairman of the committee and the author of the Denison Bill decided

they would like to have a conference with representatives of this Association. The President accordingly appointed a special committee of five consisting of Mr. George W. Hodges as Chairman, Mr. Barrett Wendell of Lee, Higginson & Company, Mr. William L. Ross of William L. Ross & Company, Inc., Mr. Warren S. Hayden of Hayden, Miller & Company and Mr. Eugene E. Thompson of Crane, Parris & Company. Mr. Hodges has some very interesting things to say to this convention as a result of the situation that has been developed.

*Mr. Hodges* (Remick, Hodges & Co., New York): Mr. President, and Gentlemen: The President is, I am afraid, a little bit in error in saying that I have some very interesting things to say to the convention. There have been some very interesting conferences going on during the last two weeks with some of the members of the Committee on Interstate and Foreign Commerce, of the House of Representatives and the special committee of which Mr. Osgood has told you, but further than to tell a little more about the way in which the conference was brought about would probably be indelicate at present.

We were invited to coöperate with Mr. Denison in the hope that amendments might be drawn to his bill so that it would be acceptable to both sides and might be enacted into law. We told the committee that we were just as definitely opposed to the Blue Sky type of laws as we ever had been, not believing them to be fully effective, that we were just as strongly in favor of fraud laws both Federal and State, as we ever had been, believing that properly administered they were the only effective type of law, but that we would gladly join with him and see if his bill could be adequately adapted and amended. We would do so, as we told him, with an open mind. Congressman Denison met us very frankly, very pleasantly, as did the chairman of the committee. We tried to find a common ground. I need not tell you anything of the terms of the bill or what it will do if enacted. Mr. Traylor has gone into that in such splendid detail that if you didn't know it before, you realize now its dangers. Mr. Denison told us at the beginning of the conference that he was willing to exempt offerings made to dealers, brokers, banks and some others. Well, that would be a great help, if the bill was enacted, in keeping us out of jail. [Laughter.]



Then there were certain other suggestions. He thought we might exempt certain securities. We said, all right, we will be glad to go along with you in that. So we went along with him and we have tentatively, on both sides, talked over—we have not agreed on anything—we have talked over many changes.

He is now submitting these changes to some of his friends among the members of the National Association of Blue Sky Commissioners and we hope that he will come back and tell us that they have agreed to them. There are other changes beyond that which would have to be made before your committee would for a moment consider coming back to the Board of Governors of this Association or to a special meeting of the Association to obtain approval. We are meeting with a man who is acting in good faith for people who are acting in good faith, although from a different viewpoint than ours and we are going to meet with him, play with him as long as we can, and then, as we told him if we don't succeed in getting a bill which is for the best interests of the country we will simply have to separate and we will then continue the same attitude that we have up to the present time of absolute, unqualified disapproval of the Denison Bill as now before Congress.

I think that it would be very wise, if this convention approves, that it confirm the action taken by the Board of Governors at the Milwaukee meeting in July in opposition to the Denison Bill. It has been stated in Washington that they did not really know that the Investment Bankers Association of America was opposed to the Denison Bill. They had only heard so from a few people. To offset such statements about eighteen or twenty telegrams were sent out about two weeks ago to some of our members in scattering cities to come down to Washington and just say they were opposed to the bill. They came right loyally, every one of them, with one exception, and that man was ill. I think it was quite a live exhibit for some of our legislative friends. The committee now desires to go back with the definite approval of the convention of their position in opposition to the bill as it now stands, and I would submit this resolution:

*"WHEREAS: The Board of Governors of the Investment Bankers Association of America at its regular quarterly meeting held in Milwaukee, Wisconsin, July 22, 1921, adopted the following resolution:*

*"The Board of Governors of the Investment Bankers Association of America having before it House Bill No. 7868 introduced July 20, 1921, and referred to the House Committee on Judiciary, which is a bill to prevent fraud in the offering and sale of securities, and having given it careful study and consideration, approves the principles embodied in this bill and advocates its early adoption by Congress.*

*"Resolved, Further that a copy of this resolution be sent to the Chairman of the House Judiciary Committee." Therefore Be It Now*

*Resolved, By the Investment Bankers Association of America, in annual convention assembled, that it approves said action of the Board of Governors."*

**Mr. Hodges:** Mr. President, I move the adoption of the resolution.

**Mr. Peirce:** I second the motion.

**The President:** Gentlemen, you have heard the resolution, which has been moved and seconded. Is there any discussion? Are there any questions? If not all those in favor of the resolution will say "aye," those opposed "no." The motion is carried and the resolution is adopted.

**Mr. Hodges:** Mr. President, I think as a further aid to the work of this committee that a resolution approving of the principles at least, of the Federal Fraud Act would be very helpful. I will not go into details because I think you are all entirely familiar with it. This resolution is as follows:

*"WHEREAS: The Board of Governors of the Investment Bankers Association at its regular meeting held in New Orleans, October 31, 1921, adopted the following resolution.*

*"Resolved, That the Board of Governors of the Investment Bankers Association of America is opposed to Bill H. R. 7215, known as the Denison Bill, pending before the Committee on Interstate and Foreign Commerce of the United States House of Representatives, and is firmly of the opinion that the enactment into law of this bill in the form in which it has been introduced would be an unwarranted and unjustifiable interference with the proper distribution of investment securities, and would be destructive of the freedom of commerce between the states necessary and essential to the best interests of the nation. Therefore: Be it now*

*"Resolved, By the Investment Bankers Association of America, in annual convention assembled, that it approves said action of its Board of Governors."*

**Mr. Hodges:** I move the adoption of the resolution.

**Mr. Thompson, (Crane, Parris & Co., Washington):** I second the motion.

**The President:** Gentlemen, you have heard the resolution and the motion which has been seconded. Is there any discussion or are there any questions? I might say that a copy of this bill

has been mailed to every member of the Association including the branch houses. If there is no further discussion and no questions all those in favor of the motion will say "aye," opposed "no." The motion is carried and the resolution is adopted.

*Mr. Hodges:* Mr. President, I would like to ask any of the members of the Association if they have any questions which they would like to ask in regard to this subject that we are discussing as applied to the Washington committee. If so, I shall be very glad to answer them if I can. This although a special committee will undoubtedly be continued under the same or other membership by the incoming President. That is the recommendation of the committee. I think, Mr. President, that what I have so far stated may be called the official report. Now if I might have about two minutes of the time of the convention speaking as a member.

*The President:* You may have as much time as you please.

*Mr. Hodges:* I will be brief. I would like to express one or two thoughts as I leave the active duties of my term as Governor which expires with the ending of this convention. It has been my privilege, or something else, for several years past to study this Blue Sky situation. I think we can honestly say that we have all taken a passive attitude so far as opposition to Blue Sky laws are concerned since 1915 when we contested through the Iowa courts the Iowa law. We have helped the Commissioners wherever we could in amendements to improve and in the administration of their laws. It has been charged by some members of their Association, and by some people in Washington that our Association was opposed to all Blue Sky laws and wanted to have substituted for them others probably of the Federal Fraud law type. That has not been entirely the case. We do not believe in their theory, but as long as there is nothing better on the books we are willing to help them out. Are not the commissioners now, however, going altogether too far?

I had quite a number of memoranda on this point which I felt I ought to give to you but Mr. Traylor has covered a great many of them much better than I could have done. But gentlemen let us not maintain this passive attitude too long. Do you realize that probably eighty per cent of the securities sold in this country, and I think considerably more, cannot under any circumstances, be

called questionable or fraudulent securities. Mr. Traylor brought out the difference between fraudulent securities and the non-fraudulent. Now a very large percentage of these securities are approved by some board, either of the state or of the Federal Government and are issued by corporations whose activities are supervised to a greater or lesser extent by some such board. Is there any excuse whatever for having the various individual states under their Blue Sky laws require validation and approval of the securities so authorized before they can be offered in those states? It is perfect nonsense. Let us come and talk plain English. It is time we got over this passive attitude. Let us take a positive one and tell the public and the borrowers of money what the real facts are. Mr. Traylor stated them in splendid shape. I wish I could put it as clearly as he did. Now there is a real reason for action. I have heard within a short time one of the commissioners having jurisdiction over the offerings of securities in his state say that he had approved during recent months and passed just as few securities as he could. Money was scarce in his state and he did not propose to have any more of it get outside than he could help. No question of the intrinsic value, no question of fraud, just a question of his personal opinion whether it was a good thing for anybody in his state to buy any securities at that particular time issued outside of his own locality. It has been stated very recently in Washington: "Well, we think that every state should have the right to say what securities are offered within the borders of that state." Have they? Do you realize that within 18 months the Federal Congress has passed the Esch-Cummins law and under the provisions of that law every steam railroad security in the country must under that law have the authorization of the Interstate Commerce Commission? At the present time there are 14 states in which those steam railroad securities cannot be offered without the approval in some form or other of the Blue Sky commissioners of those states. If the Denison bill should pass it places by its delegated power to the states over interstate commerce in securities the possibility of the securities authorized by one body of the Federal Government being absolutely barred by this delegated power from sale in some of the individual states. It is state rights gone mad. It is high time that we got busy and took positive action.

Please do not think I am criticising individually or personally any of the Blue Sky commissioners themselves. They are a very pleasant body of men, they are good fellows, and when Mr. Osgood and I were invited to meet them they gave us a royal welcome. Their mistakes are not the mistakes of intent. They are the mistakes of a lack of financial and security experience prior to their coming into office, or after being in there for usually only a very short time. Now I would like to leave as a suggestion to the committee which Mr. Beebe will probably appoint that they take up very earnestly the thought of devising some plan by which Federal legislation or otherwise, a series of exemptions of classes of securities and probably classes of transactions, by which the offering and sale of all these securities which are authorized by these various public bodies may be exempted entirely from the approval and control of the Blue Sky commissions of the various states. Obviously Government, State and Municipal issues would also be exempted. Now that is drastic and radical. I did not come down to this convention intending to propose anything of this kind but because of recent developments I should not go out of the office which I have held for so long without giving to you men this idea, leaving it to you to discuss and determine. I do not know whether Federal legislation of this character can be enacted that will be constitutional, that will go as far as I have suggested. Probably not, but there is the idea. Let us find some way in which the burdens which are now being placed on the borrowing of money by legitimate mercantile, commercial and manufacturing businesses, shall not be burdened as they have been and will inevitably be more greatly burdened in the near future if the free flow of the securities in interstate commerce is denied. It is a burden which the business world cannot possibly stand and it is our duty as the intermediaries between the loaners and borrowers of money to see that not only legislators, but the public are educated as to the real dangers of the situation, and now is the time, I believe when it is our duty to begin positive action looking toward that end. I thank you. [Applause.]

*The President:* I don't know any better occasion to bring before this convention the feeling I know I express not only for myself most heartily but for the Board of Governors of this Association, the appreciation we ought to have, that we actually

have, of the services that have been rendered by Mr. Hodges, both as a member of the Board and as President of this Association. [Prolonged applause.] It is a matter of sincere regret to all of us that under the constitution and by-laws he must retire this year as a member of the Board. I think that as a result of the experience that he has had in his official capacity that the things he has to say deserve great weight.

In talking to you a moment ago he alluded to a very pleasant meeting that he and the President had with the Blue Sky commissioners. They had a very well attended meeting in Washington in the early part of September. We were given a most cordial invitation to attend the meeting. We were accorded every courtesy. We were given the floor for any extent of time we chose to use it and I may say we availed ourselves of it perhaps to the detriment of some of their own proceedings. They gave us every chance to explain our position on the Federal Fraud Act and to discuss the matter with them generally. Later we extended to them the freedom of the floor of this convention and I am sorry that the executive officers of their association have not been able to take advantage of our invitation. We have with us today however Mr. Conner of the Georgia Commission and I know that he would be glad to talk to us for just a few moments. Mr. Conner.

*Mr. Conner* (Georgia Securities Commission, Augusta): I am very delighted to have the opportunity of speaking to you for just a few minutes, particularly as the laws I have a little part in administering in my state have been arraigned here. I feel I am at a little disadvantage. However if there are any people from Georgia here, representatives of the bankers of Georgia, or the bond dealers, the investment bankers, they will readily understand that we have so cordially coöperated with the members of your Association in Atlanta and in Georgia and with the bankers of our state, that I am quite sure that I am presenting myself now not to enemies but friends because if you knew how earnestly the Georgia Securities Commission seeks to encourage legitimate business, to encourage all people to put their money in honest investments, you would know that whatever we may say about state regulations when it comes to that I was reminded by the gentleman who represented the American Bankers Association here a few minutes ago, in his attack on state regulation. The banks of this

country are the most closely regulated people on earth, by state and Federal legislation, and if he could just go back sixty years and find out the condition of the banks in this country at that time when in every state every little banker had the right to issue currency and you never knew when you got a paper dollar in your pocket, what it was going to be worth, whether it would be worth a dollar in this county or 50 cents in another. Every single bit of change that we have today is due to government regulation of banks, and I believe that every honest banker would rather do a banking business under the circumstances that we have today than he would under the circumstances existing seventy or eighty years ago in this country. We do not attack the bond dealers or the investment bankers, the dealers in honest securities. I know that there are mistakes in the Georgia law. I know it because I made the original draft of it and it was rewritten by the legislature and they put a lot of mistakes in there that I never expected to see. [Laughter.] I tried to get some of them taken out this summer when our legislature met, and I drew a series of amendments which I submitted to the Bond Dealers Club of Atlanta and to the leading attorney in Atlanta representing the Trust Company of Georgia. Mr. Wardlaw may be here, as a representative of that organization. I submitted my bill to him and got his approval, and accepted every suggestion that he made as to changes that should be made. That was General Clifford Anderson, the attorney for the Trust Company of Georgia. That bill passed the Senate with just two votes against it. My friends having promised me to take care of it in the House I did not watch it as closely in the House; went to sleep on it and it failed to pass. It will come up for new business next year. Before that every move that the Georgia Securities Commission has taken as regards the application of the law to legitimate bond dealers has been after a conference with the bond dealers of Georgia, most of whom are members of your Association; I mean the ones that we have called into our conference.

The first conference we had was early last November, I think, very shortly after I came into office after the law went into effect. I presented the case to them and we talked it over with our Attorney-General who at that time did not agree with me in the interpretation that should be made of the law. I found that if

the commission undertook to enforce the law as our Attorney-General construed it, that we would practically put these gentlemen out of business. We did not want to do that. We knew that it was not the intention of the legislature. We want to prevent the fraudulent sale of securities. We want to put out the crook, and we know you gentlemen are not crooks. So we went on and let things stand just like they were and had an understanding with all the members of your Association that they could go ahead and do business and we would not interfere with them and we would present the thing to the legislature and get our amendments through. As it happened this summer we did not get the amendments through. I presented the case to our new Attorney-General in a very strong way and he agreed with me and gave us a ruling that I do not think will interfere with any legitimate bond dealer in Georgia, and give him very little trouble.

We have prepared a form and I have a few of them here. As I said at the outset in appearing before you I do not feel as if I were your enemy. In Georgia the strongest supporters of Blue Sky legislation and of our commission in the state are the large investment houses, bond houses, and the bankers. Very often I have members or officers of the leading banks in Atlanta call me up and confer with me about various securities that they have heard about and they have helped me in their literature to educate our people and warn them against putting their money in fraudulent securities. We have had tremendous evils in Georgia in that line. I could cite numbers and numbers of cases through fraudulent advertising and through fraudulent agents. There was just one concern in Texas that took out of our state last year and the latter part of the year before, in the neighborhood of a million and a half dollars, and got out of one of the poorer of our counties \$400,000. Well it happened, in that case that one of the bankers in that county had married the daughter of the promoter of this enterprise. [Laughter.] I am not going to say what his name was. He having the confidence as bankers usually have, of all the people in the county, just simply cleaned them up. That is the kind of thing we want to prevent. We are not after anybody that is dealing in legitimate enterprises. We don't undertake to say before we license a proposition whether it is going to succeed or not, but I will tell you gentlemen one thing that we



have inquired into most rigidly, and that is the moral qualities of the people that are behind that proposition. [Applause.] We regard the moral risk above everything else and if we find that such and such a man that is promoting a thing as I found in the case of an investigation I made of another Texas concern, has a criminal record, then he has no chance, no matter what improvement he may have made, to get anything by with us in Georgia. [Laughter.]

Now I am not here to speak particularly for the Denison bill, as your Chairman knows, and I want to say that I am not here as the representative of the securities commissioners' organization. I am here only in a private capacity. Anything that I may say for the Securities Commission of Georgia I can stand behind, but I am not speaking for the organization as a whole.

*The President:* We appreciate that.

*Mr. Conner:* I just started to say something about the Denison bill. I want to say while of course our securities commissioners as a whole are committed to the Denison bill and I am in favor of the Denison bill I would be delighted and I believe the Securities Commission of Georgia would also, if we could reach an agreement with your Association whereby certain amendments were proposed, that you would be willing to accept and that would be satisfactory to us, so that we could get some Federal law passed that would help us. Gentlemen, we are not after you, you understand, but since I have been in office in Georgia the greatest frauds that are being perpetrated came through the circularization by United States mail of all kinds of fraudulent literature sent into our state to deceive the people. I am doing the best I can to educate them. I have about stopped the fraudulent advertising as far as Georgia is concerned, but it would be an immense advantage to our securities commission if some way were devised whereby we could cut out that fraudulent circularization of fly-by-night, get-rich-quick concerns, that probably haven't anything in the world back of them but desk room in some office building. If you gentlemen would cooperate with us in securing some kind of legislation to stop that, why, I am sure that we will be friends and not enemies. I thank you. [Applause.]

*The President:* I think we have gone pretty thoroughly into this subject. I know there are great many of you who desire to be

heard on it, but I want to close it if it is agreeable to you with just a slight comment. I want to thank, on behalf of the convention, Mr. Conner, of the Georgia Commission, for coming here and speaking so frankly to us. I feel sure that the relations of the Georgia investment bankers and his office are going to continue as cordial as they have been, and I know that I can speak with authority when I say that you will have all the help, not only of the particular group of our Association in which Georgia is, but you will have the help of our main Legislative Committee in anything that you try to do to improve your Blue Sky laws, and we will do everything we can to coöperate with you. That brings me down to one point here that I desire to put clearly in the record. There had been so much misunderstanding, so much mis-statement of the position of the Investment Bankers Association of America that after conference at the time of the meeting I have just alluded to of the Blue Sky commissioners in Washington, we tried to state our position before them so clearly that there could be no longer any ground for misapprehension, and it was stated as follows:

1. As to the thirty-eight states having Blue Sky laws it is not the intention of the Association to attempt to remove those laws, but simply to amend them from time to time so as to make them more workable, and to accomplish the elimination of fraudulent securities.

2. As to the three states having fraud laws, we intend to oppose the introduction of typical Blue Sky legislation and to try and maintain and improve the fraud laws.

3. As to the remaining states having at the present time no Blue Sky laws or fraud laws we intend to use our best efforts to oppose the introduction of Blue Sky laws and to favor the introduction of fraud laws.

4. As to the national situation we are as much opposed as the Blue Sky commissioners to a Federal Blue Sky law which would supersede the state laws.

Now, I do not think there is any ground for misapprehension in the position of the Association on this particular point. I wanted it stated clearly before this convention so that there can be no misunderstanding in the future. That, of course, is the present position of the Association. If we are driven to take

another position, as Mr. Hodges indicated we may be, then that is a position to take when we are faced with the necessity for it.

I just want to allude to one thing. Mr. Conner spoke about the regulation of state banks. It is perfectly true that the banks have been regulated, but I want to point out the fact that the regulation in the case of Blue Sky laws takes the form of a regulation and license of the particular transaction, and not entirely the regulation or the license of the dealer, although in some states the two run side by side. Imagine for a moment how far a state bank or any bank, for that matter, could go if each one of its credits had to be submitted to a governmental organization, call it the Blue Sky commission or what you please, before credit was extended to your customer. That is the position the investment bankers are placed in by practically a majority of the Blue Sky laws of the states today.

So far as the purpose of our Association and the purpose of the Blue Sky commissioners I think it is fair to say, I think it is very necessary that it be said, that there is no difference of opinion whatever. We have exactly the same purpose. We believe, however, from our experience that they are mistaken in the method of remedy proposed, and I think that has been well brought to your attention by Mr. Traylor's able address before you this morning.

Now unless there is somebody who desires to be heard further on this subject, which I think has been pretty well discussed, we will close the morning session, but before doing so we have several things that the members ought to know. In the first place we are going to have through the courtesy of the local members of the Association a motor trip about the city visiting points of interest. In a few moments I am going to introduce somebody who will explain that to you more thoroughly. This evening's program is a very interesting one. I think it is a program that none of you can afford to miss. There is more in it than appears on the program itself from the standpoint of interest. On the evening program Mr. Robert Herman and Mr. John Watson Wilder, Vice-President of Albert Frank & Company, will present an address based on a recent national survey of conditions in the interests of several investment bankers. This will be illustrated by numerous charts placed on the screen as well as many maps

projected from lantern slides. I feel that it will be a most interesting and instructive address and it may be followed by a talk from the floor. Gentlemen, I know a little something about what this is and I think it is something none of you can afford to miss, if you value your appearance at the convention even from a dollars and cents standpoint and nothing else.

## TUESDAY EVENING SESSION

NOVEMBER 1, 1921

*The President:* Members of the convention, I think that we have a very interesting program tonight. Part of it is formal and part of it is more than formal—a matter of interest. There are several committee reports that contain matter that ought to be presented to the Convention. The first one is that of the Foreign Securities Committee, of which Mr. Albert H. Wiggin, of The Chase Securities Corporation, New York, is Chairman. That committee has done a good deal of excellent work that does not appear in its report. It has, however, prepared a formal report which somewhat marks progress, and I will ask Mr. Williams of the Fidelity Securities Corporation of Baltimore if he won't read it. Mr. Williams.

*Mr. Williams* (Fidelity Securities Corporation, Baltimore): Mr. President and Gentlemen.

REPORT OF FOREIGN SECURITIES  
COMMITTEE

The Foreign Securities Committee begs to report as follows:

They have accomplished little during the past year. The following matters, however, have been given consideration by the committee:

1. The Investment Bankers Association of America was requested to commend the plan for the formation of the Foreign Trade Finance Corporation, and to urge the members of the Investment Bankers Association of America to give their cooperation. Your Foreign Securities Committee, after due consideration, came to the conclusion that it was not within the province of this committee to make such recommendation to the Investment Bankers Association of America.

2. In the month of June it was brought to the attention of your committee that there had been organized the Association of Foreign Security Dealers of America, whose object was "to standardize rules and regulations governing transactions in securities which are not listed or traded in on the New York Stock Exchange and which are payable in foreign currency and to endeavor, by whatsoever means it may see fit, to improve the status of the foreign security market in this country, and to be of assistance to members of the Association." The question as to whether the Association above referred to and the Foreign Securities Committee might be duplicating work, or that the work of the two groups might interfere with each other, naturally presented itself. The committee representing the Association of Foreign Security Dealers of America was entirely willing to withdraw, combine

with or cooperate with your Foreign Securities Committee. After careful consideration, your committee concluded that, as the membership of the two associations varied and as the Association of Foreign Security Dealers of America had already done excellent work along the lines for which it was organized and was so well qualified to continue, it was unwise for the Association to be discontinued, but your committee advised them that it would appreciate their willingness to keep it fully informed.

8. The question of the authentication of securities representing internal loans of foreign governments is perhaps the most important matter now under consideration by your committee. Most of these securities are written in the language of the country of their origin and, as many of the investors in this country are unfamiliar with the different languages in which the certificates are issued, it is the opinion of your committee that it will be of benefit to the investors in this country and also of advantage to those issuing such securities if some official governmental agency can be established to authenticate such issues. Your Committee has taken this subject up with the French Government. If your committee receives any encouragement, the same subject will be pursued with other governments. Your committee begs to report progress in this matter.

Respectfully submitted,

A. H. WIGGIN, *Chairman.*

*Mr. Tillotson:* Do the members know anything about this new association, who they are and what they want to do?

*The President:* I think that the membership does not. I might say that the new association was organized in the latter part of May. Mr. Pynchon, of Pynchon & Company, was its first president. It was organized largely for the purpose of laying down rules in regard to dealing in securities payable in foreign currencies that were being traded in in New York, and not only to lay down rules governing trading in those securities but to be able to arbitrate differences that arose in the trading. I understand from everything I can learn that the association has been very successful in this. While Mr. Wiggin's report does not say so, it is contemplated that a subcommittee of our Foreign Securities Committee will be formed and a like committee of their association will be formed so that we may have cooperation in this regard. I think there has been no attempt to carry on any further organization of that association pending the cooperation of this association with the actual work I have mentioned that is being carried on. That program of cooperation was arrived at only recently. Is there any discussion of the report of the Foreign Securities Committee? Are there any questions that might go into the record for the assistance of the committee in

its work? If there are not and there is no objection the report will be received and filed.

The next on the program is the report of the Government Bond Committee. Mr. Dalton was going to be here to take up this report but I imagine that he has been detained. I am going to ask the Secretary to read this report because I think it ought to be considered.

(The Secretary then read the report of the Government Bond Committee as follows:)

## REPORT OF THE GOVERNMENT BOND COMMITTEE

Your Committee has found very little to demand its attention during the present year. There have been no new issues of government securities and no changes in outstanding issues.

The committee has had only one meeting—in New York during the month of April, at which time it had been requested by the President to prepare a Questionnaire covering the subject of refunding of the government debt for submission to the May meeting of the Board of Governors.

At the meeting of your committee, the question of refunding was discussed and as a result a conclusion was reached unanimously as follows:

The committee was opposed to:

1st.—Any artificial scheme to convert outstanding Liberty Bonds into higher rate long term bonds because of the additional cost to the Government and because owners of outstanding bonds were not entitled to any bonds.

2nd.—Any form of bond exempt from taxes to a degree greater than the present outstanding obligations, including, of course, Liberty  $3\frac{1}{2}$ 's and Victory  $4\frac{3}{4}$ 's.

3rd.—Any new issue offering the circulation privilege or availability for use as currency.

4th.—On the theory that war costs should be borne within the life of the succeeding generation, roughly estimated at about thirty years; war obligations of the Government should, if possible, be retired within that period of time and in no event should any of the war indebtedness remain outstanding for a period longer than fifty years from the date of issue of the First Liberty Loan.

5th.—The committee felt that because of the constant demand from certain classes of investors and institutions for short term government securities, such certificates should be continued as a medium for temporary refunding of other obligations.

A questionnaire concerning the general subject of refunding was prepared and contained a brief outline of suggestions of various natures both for and against a refunding operation. This questionnaire was submitted at the Board of Governors' meeting in May with the statement from the committee that it did not recommend

the sending out of the questionnaire to the membership of the Association as it was felt that no conclusion or recommendation should be arrived at until the Treasury had formulated some plan of its own.

The Board of Governors approved the form of the questionnaire but agreed with the committee that it should not be distributed. Since that time we have noted with considerable interest that the Secretary of the Treasury has on June 16th and September 16th, 1921 offered for subscription with great success issues of Treasury Certificates having a maturity of three years, the proceeds from the larger part of which have been used to purchase and cancel outstanding Victory notes and as a result a temporary refunding or spreading of the Victory Loan maturity is being accomplished. The real success which this form of financing has met with is proved by the fact that the first issue is now selling in the market at a premium of about  $1\frac{1}{2}\%$  while the second issue is selling at a premium of about 1%.

It may be interesting to the Association to note that in the questionnaire above referred to issues of Treasury Certificates maturing in three years were suggested as a possible and feasible means of taking care of the Victory Loan.

About the first of July the membership was requested to send out a notice to their clients calling attention to the very large amount of unclaimed interest (amounting to some \$83,000,000 on March 31), which belonged to owners of Liberty bonds, which was uncollected either by reason of failure to present coupons for payment or to exchange of temporary for permanent bonds.

This action on the part of the committee was noted and approved by the Treasury Department and it is our hope that as a result a great many owners of government securities have received the interest which was their property and which might not have been claimed had not their attention been called to their failure to present the coupons for this purpose.

Other than the above, the committee has found little or nothing to demand its attention.

It is a pleasure to state that the coöperation of the Treasury Department in Washington, which in past years has been exceedingly helpful, has continued during the present year, and it is the hope of your committee that at all times such a relationship may continue to exist in order that the Association may be in harmony with policies adopted by the Secretary of the Treasury.

Respectfully submitted,

PHILIP S. DALTON, *Chairman.*

*The President:* Gentlemen, you have heard the report. Is there anything about it that you desire to discuss or about which you care to make suggestions for the committee? If there is not and there is no objection on the part of the convention the report will be received and filed.

The next report on the program is that of the Industrial Securities Committee of which Mr. Harold Stanley is Chairman. Mr. Stanley has been ill lately, and while he fully intended to come to this convention he found that he could not do so. The



report is a very interesting one, has been printed, and will be distributed. There are several points that are to be brought up under it that will be of considerable interest.

Mr. Sheldon of Lee, Higginson & Company, has agreed to discuss certain parts of this report, but he asked me if he might not go over until later in the evening, and for that reason I am going to make a change in the program. I am going to ask the Publicity Committee, of which Mr. Howard F. Hansell, Jr., of Philadelphia, is Chairman, to take up its discussion at the present time.

I think that those of you who took the automobile trip through the New Orleans business district this afternoon can appreciate the pamphlet which was distributed on the Free Port of New Orleans. This pamphlet was distributed to the members of the convention at this morning's session. As a matter of fact, it should have been called to your attention at that time. The description is a very good one and I am sure that this, together with the actual vision of the properties this afternoon, gives you a pretty good idea of what New Orleans is doing and can do in the future.

Mr. Hansell, I have called you out of your turn in the program in order to allow the Industrial Securities Report to go over.

*Mr. Hansell* (Redmond & Co., Philadelphia):

## REPORT OF PUBLICITY COMMITTEE

The Publicity Committee during the past year has endeavored to make the official "BULLETIN" more of a monthly magazine dealing with investment banking, and to this end has been successful in getting many members of the Association to write articles for the "BULLETIN." The committee hopes that this work may be further developed so that the "BULLETIN" may become really a monthly magazine devoted to investment banking.

The committee believes that this work should be further extended so that a permanent Publicity Bureau, with the coöperation of the "BULLETIN" could supply educational articles on sound investments to newspapers, periodicals, etc., as a method of educating the public against the purchase of fraudulent securities. This work would naturally very much aid the business of the investment banker.

Through the courtesy of the Financial Advertisers Association, there has been arranged an exhibit of financial advertising by their members and our members, at this convention. This committee believes that this exhibit will prove of great interest to our members and if thought desirable might become a permanent part of future conventions.

Respectfully submitted,  
HOWARD F. HANSELL, JR., *Chairman.*

*Mr. Hansell* (Continuing): That exhibit, gentlemen, is around the corner back of the Secretary's office. I don't know how many of you have found it, but some of those that have, have found it of considerable interest. In discussing this publicity work Mr. Hallowell has consented to say a few words as to how we can make our advertising more attractive to the investors.

*The President:* Mr. Hallowell. [Applause.] Mr. Hallowell of Lee, Higginson & Company, Boston, and Vice-President of the Association, needs no introduction.

*Mr. Hallowell:* I probably know less about advertising than any known man. Why I was picked for this job I cannot imagine, but what I shall attempt to do is to start a discussion on advertising because I believe advertising, especially along educational lines, can be one of the most valuable parts of the work of investment banking houses, and I believe that a house can build up through advertising and letter-writing a mail order business larger—considerably larger—than can be obtained through bond salesmen. Before the war the unit of sales with a good many bond houses was, I believe, \$10,000 or more, and today in a great many of them it is \$3,000 or less per unit of sale. This means that a new class of investor is operating—the smaller man. It

is natural, with the taxes which now exist, that the rich man should now be investing in Government bonds and municipals, and a great many houses do not specialize in these securities.

The question comes up how to educate the new type, the small investor, and get him into our offices. As you know, all members of the New York Stock Exchange are very much limited to the form of advertising they can do. Perhaps those laws will be modified somewhat a little later, but for the time being we shall have to eliminate to a great extent from the discussion which will follow those houses which are members of the New York Stock Exchange.

Until very recently most advertisements have been in language which the uneducated investor, or the man about to become an investor, does not understand. Advertising was purely technical and designed for the professional bond buyers, such as trustees who make it their life business to invest other people's money, national banks, savings banks, etc. By these men the ordinary forms of advertising are easily understood, but to the man who has just come into the possession of \$1,000, perhaps for the first time in his life, they are unintelligible; he does not understand yields and per cents, sinking fund, callable prices, etc. These must be explained to him in language which he can understand. But first it is necessary, through a letter or advertisement, to arrest his attention, to interest him, explain in words—if necessary, of one syllable—which he can understand, and gradually persuade him to come into your office to ask questions.

Such advertising needs imagination and considerable skill. The old form is like holding up your hand and saying, "Those who are not professional buyers keep away; we do not want to explain to any who do not already know." The small investor believes that he is not welcome in a big bond house; that nobody will pay him any attention, and therefore he goes to the fly-by-night houses and promoters of fake securities who tell him their story in language which he can appreciate.

It has been extremely interesting to me, as a novice in advertising, to spend a great deal of time at the exhibit in the other room which has been collected by Mr. Hansell. The advertisements are splendidly done and most of them are in language and form anyone can understand if he has any sense at all. I hope

all our members will go to this exhibit and spend some time upon it.

As I said at the beginning, I have had very little experience with advertising, and I would like some members, who have had to do with it, take up the discussion. If Mr. Fox is in the room and if it is proper, Mr. President, will you kindly call on him?

*The President:* That is perfectly proper. Mr. Fox? Mr. Fox has also escaped it seems.

*Mr. Hallowell:* I noticed Mr. Cyrus Peirce had lots of splendid advertisements in the other room. Perhaps some of your men are here, Mr. Peirce, or perhaps you will carry on the discussion yourself.

*Mr. Peirce:* Suppose you try Mr. Kinsley.

*The President:* Mr. Kinsley, won't you step up here please, and talk to the convention a few moments on this subject?

*Mr. Kinsley* (Cyrus Peirce & Co., San Francisco): Mr. Chairman, this is my first convention, and this is rather unexpected and unpleasant to be called on at this time, and I can tell better when I get through how unpleasant it really is. I don't know what line you want to discuss. Mr. Hallowell has said that the trend in bond advertising is toward simplicity and getting away from the complex. It so happens in my experience that in that way I have not been handicapped, because when I came into the business I knew none of its complexities, because I knew none of the professional part of the finance business. It struck me that the way to get at the new investor was to talk to him in a simple way about some one thing which he does know. For instance, in a dry goods store they would probably not show you the entire store at one time, but they would probably show you the hats at one time, and the suits at one time and the belts at another time, and in that way they would attract your attention to some particular thing, that you were interested in.

In the bond business it strikes me that the first thing is to attract dignified attention. In the advertisements that discuss one simple thing, leaving out the many things that a man might question, you are more apt to get him to ask for information about the other matters, and once you have him it is a part of a sales department to sell him. The thought on the announcement he made here in this report, that there were eighty millions of interest on Liberty

bonds unclaimed shows that the war and the Liberty Loan went part way in educating the bond buyer. We have found in the small experience that we have had on the Pacific Coast that the answers and requests from the \$100 bond buyer often lead to a larger sale than if we directed it toward a \$10,000 buyer. In other words, if we advertised a baby bond on an issue that was well known, went through a general campaign of all the Pacific Coast bond houses, and mentioned that those bonds could be obtained in \$100 denominations we very often found a man who had \$5000 to invest in them. I think it is very apparent upon inspection or any analysis of that matter that if you yourselves were going in to buy \$10,000 of anything that the price did not limit to that amount, you would be more apt to find out how they would treat you, or what they could tell you, if you started in on a \$100 basis, and the man who finds he gets a service from a bond house and cordial information when he only has \$100 to spend is more apt to bring his \$10,000 and the \$10,000 of his friends and others, in which way you have an accumulative effect. So that I think a very good theory is to turn over every stone and not to turn over only the large ones. It is by turning over the small ones that you may run across the large ones that would never come. The bond houses of the country, I think, have an obligation to the small investor rather than to the large investor.

A few days ago I sat at a table at which three men whom I had just met were discussing investments. It so happened that a firm of fly-by-nights had scattered salesmen over a city, and one of these men sat at a table at which one of these men was selling this stock. He told me the wonderful way in which he sold this stock, which was to my mind absolutely worthless, but he sold it along the idea that the investment houses and the bankers who had made their money would not give the small investor an opportunity to get the things that they got in on, that they bought these stocks that paid fifteen and twenty and ninety and 100 per cent but they never passed those out to the small investor, they kept that, but that they gave an opportunity for the small investor to come in and make the same amount that the bankers made and that the large investor got and that they would go so far as to let him buy it on the installment plan. Now I don't hold any brief for the installment plan because in our office we have a cashier

who is very voluble and not at all reticent on telling you his troubles, and his troubles happen to be great enough without carrying on an installment plan payment for bonds. But the installment plan is in a way an obligation, as I see it, that the bond houses owe the uneducated buyer of investments. If the stock salesman who is unscrupulous and the house that is unscrupulous that sends him out, sends him out to offer the partial payment plan to get their money and helps educate him along the wrong line, why should not the legitimate bond houses step out and try to educate him along the right line?

The thought occurred to me this morning in the discussion of the Blue Sky law and I refrained from saying anything because I felt it was none of my business, at the first attendance at this meeting, to interpose any idea, was that the Blue Sky law in itself may be a very proper basis on which to base your correct advertising but it is only a base. In California we have a Blue Sky law that was reported today as being effective, and I think it is effective, but the point that strikes me is that the legitimate bond houses are the ones who create on your financial pages the air of confidence and conservatism upon which the paper relies in presenting financial news to its readers. The fly-by-night who comes along and gets a permit from the corporation commissioner to issue bonds, or rather stock—never bonds that I know anything about—comes onto that page where you have been conservative to say the least, no matter whether you have been rather forward in your style of presentation and away from the old method of presenting your wares where you say that so and so is the case according to the best of your knowledge and belief, or perhaps with an alibi clause at the bottom, and these people will come along and tell you that here is the best investment in the world that will earn you fifteen and sixteen per cent and that it will never go below par. Now the man that you are talking to in your advertisements, who has read your advertisements, says "Here is a fellow that has something better than these other fellows. They are not willing to come out and say this is as good as that, but here is somebody that says they have something better, they tell us that it is so good that it must be good and I will go and get a little of it." Of course eventually they are stung and when they are stung they hold it not against the house that

sold them, because they probably won't remember that house, they are probably not in town that long, but they hold it against all the investment houses. In other words, this man is trading on the confidence that you have established in these financial pages. You have built up a confidence which they are trading upon, and the only way to overcome that in my mind is a close association with the newspapers so that they will consult the bond houses, the men who support their pages before they accept this sort of advertising. I don't know of anything else that I could talk about here that would be of any interest to you. It is a subject that I could talk about all night as you can probably tell by this time. If there is anything you would like to bring up I would like to discuss it, but if this will let me out I will be glad to quit, Mr. Chairman. [Applause.]

*The President:* May I interrupt, Mr. Hansell, long enough to say that I think Mr. Kinsley is very modest? I think it is perhaps due the convention to know that he conducted the advertising of the Panama exposition. [Applause.]

*Mr. Hansell:* Gentlemen, the exhibit of financial advertising in the other room was suggested and the work of getting it here was really done by Miss Scully of Morris F. Fox & Company, of Milwaukee, and Mr. Mulford of Ames, Emerich & Company. If Mr. Mulford is in the room I would like to call on him for a few remarks.

*Mr. Mulford* (Ames, Emerich & Co., Chicago): I would like to ask as a request for all those who have seen the exhibit to raise their hands. [Almost everyone raised his hand.] I think that is rather gratifying considering the fact that advertising some ten or fifteen years ago was nothing more than the first page of our circulars. I want to explain first a word or two about the exhibit and how it came to be here and something about the association which owns it. The Financial Advertisers Association is made up of a few members of the Investment Bankers Association of America and quite a large number of the American Bankers Association and other depository bankers. Perhaps the association is influenced a little more by a commercial bank than it is by investment bankers. Nevertheless they have made tremendous strides. The association was organized some eight or nine years ago by a group of advertising managers of the banks down in

St. Louis and now is affiliated with the Associated Advertising Clubs of the World. Miss Scully suggested to the Publicity Committee back in the spring that it might be worth while to bring this exhibit here. It had been exhibited at the advertising convention at Atlanta back in June and also at the American Bankers Association in California the past month. We could not have done anything in taking a step forward this way had it not been that that exhibit was already prepared. As you know, a request was sent out to our own membership for those who wished to exhibit to send in copies of their advertising matter, and there were about 25 exhibits comprising 17 frames, I believe, that have been prepared by our own members exclusive of the F. A. A.'s exhibit. I think it is no more than right to say one thing here publicly from the floor, that the Financial Advertisers Association has not any axe to grind. It is a coöperative association and I believe that the younger men who have direct contact with the advertising in all your organizations would do very well to join the Association. There has been a feeling on the part of some of the older advertising men in the bond houses that some movement should be started inside our own organization looking to the promotion of advertising ideas, the interchange of ideas and so forth. It is possible that somebody may wish to speak on that score. Personally, and not representing the committee, I am a little opposed to that. I think here is a machine that is already made. It has done excellent work and it can go much further. Mr. Morse, the Secretary of the F. A. A. of the State Bank of Chicago is here and I am sure would be glad to have anybody signify their desire for further information or to take applications for membership.

There are two outstanding things that strike me regarding this advertising movement as a whole. I have in my files advertising copy that was knocked out ten or twelve years ago as being too progressive. That is no criticism of any particular one at that time, but that identical style is now being used. The progress of course has been very slow. The Liberty Loans did a great deal to expand our ideas and push us forward but we can do a great deal more. I am very hopeful that the BULLETIN can be used as a further means of interchange of ideas. People I find are interested in the advertising proposition and they should specifically con-



tribute articles as some of them have in the past to the BULLETIN. That will be helpful to the work organization. Mr. Fenhagen said this morning that if you wish to get weeds out of the garden you should plant and cultivate flowers. That has been alluded to several times this evening. I feel, from having been one of the committeemen on the Fraudulent Advertising Committee some years past that it is really wonderful what has been accomplished towards blotting out the open overt act of the newspapers helping the fly-by-nights. Back about the early part of the war I had occasion to call on a great many newspaper publishers, or their representatives and I can quote you almost word for word what one man said. He wanted to know what the difference was if a banker takes deposits or the get-rich-quick man gets the money. He asked, what is the difference—why should not we accept the advertising? I have heard other people say that so long as the Blue Sky Commission in a state does not prohibit them from taking certain advertisements they are going to take the revenue. In my neighborhood that has been changed, partly through advertising—through publicity and keeping everlastingly at it. What can be better than to dovetail into our fraudulent advertising—overcoming and preventing fraud—than constructively putting in worthwhile advertising—worthwhile publicity? The gentleman that just preceded me on the floor has hit the nail right on the head in respect to the education of the smaller fry. If we all work together, and I am not intimating for a moment that we ought to do coöperative advertising—but I hope that some time we will be able to do that. My personal interest in working for the exhibit and to bring it here was to show you sales managers and you office executives, partners of the houses—wake them up to the consideration of what advertising means. For the most part you don't pay any attention to it at all. You have a man who purchases your supplies—and printing is a part of your supplies—circulars are printed matter—therefore, the clerk in charge of everything in the office takes on advertising as a side issue. That is changing in a number of organizations decidedly, but it has not scratched below the surface yet, and if this exhibit is of interest to you, the Publicity Committee would like to know it. I think very likely a questionnaire will be sent to the membership, asking them what they think about the thing—whether you people wish to have your younger representatives join the

F. A. A.; whether we should take the F. A. A. exhibit or exhibit wholly our own, made up from our own membership. I hope you will give this some serious consideration when you get back to your homes.

Now, Mr. Chairman, I would like to move a vote of thanks to the executives of the F. A. A. who have made possible this exhibit.

*Mr. Prescott:* I second the motion.

*The President:* Gentlemen you have heard the motion made and seconded. Is there any discussion or comment? If not, all those in favor will say "Aye." I think there are none opposed. The motion is carried.

Gentlemen, I think we are to be congratulated in having presented to us so excellent an exhibit. I do not say that because I saw some of our own advertising in it, but it is a splendid exposition of what can be done.

*Mr. Hansell:* Is Mr. Ellsworth, of New Orleans, in the room? He has had a great deal of experience in advertising and I would like very much for him to say a few words.

*Mr. Ellsworth,* (Hibernia Bank & Trust Co., New Orleans): The subject has been so thoroughly covered that I don't believe I can add anything to what has been said. My views have been expressed perfectly and I should like to endorse what has been said by the previous speakers on the subject.

*Mr. Hansell:* I thank you very much, Mr. Ellsworth. Mr. President, that is all we have.

*The President:* The Chair has not very much longer to exercise prerogatives of any kind, but he is going to exercise another one in a moment, by changing the program again. Mr. Sheldon, I think, is not in the room, and if he is not I will ask Mr. Barrett Wendell to bring before you the summary of the report of the Industrial Securities Committee. Copies of the actual report will be distributed among you. Mr. Wendell.

*Mr. Wendell:* Mr. President and gentlemen, there have been only once or twice in my life that I have ever felt very great. This is one of them. I will tell you why. In 1912 I attended a convention in Chicago at which that great man, James J. Hill, read a paper. About the middle of the paper, one of the men attending the convention, but not present, turned to me and said: "That poor old man never saw that paper until he got in here tonight." And, that is the way I feel now. [Laughter.]

## SUMMARY OF REPORT OF INDUSTRIAL SECURITIES COMMITTEE

The object of most industrial financing in recent years has been to finance inventories expanded by increased business and by rising prices, or as has been the case more recently, for the purpose of carrying inventories piled up on account of the decline in sales. The urgent need for this type of financing is largely past, but we may expect for some years a large volume of refunding business. Many industrial companies have become large and stable enough to justify investment credit and the public will have increased confidence in the securities of those which pass successfully through their present difficulties.

### DEVELOPMENT OF PROTECTIVE COVENANTS

The covenants involved for the protection of the security holder, referred to in the 1920 report of this committee, are now receiving their first real test. When the war boom, attended by a tremendous expansion of the "inventory companies" created a demand for new money which seemed likely to over-tax our banking resources, it was natural that these requirements should have been satisfied by borrowing from the public, and it was quite logical that such borrowings should have been considered deferred bank loans and judged and governed by usual banking standards. Bank loans, deferred or otherwise, must be considered on somewhat of a liquidation basis and the protective covenants have therefore been closely linked with the "quick asset" and "quick liability" position of the borrowing corporation, rather than with earning power, which is the only ultimate measure of value of a going concern, but does not lend itself readily to the making of protective covenants.

The primary purposes of such covenants have been conservation and restriction—conservation in preventing the dissipation of current assets in dividends or property account; restriction in limiting current debt, usually to a stated percentage of quick assets.

It is still too early in this test period to pass final judgment on the efficacy of such covenants. We believe that their principle is sound and that in general they have had a helpful influence during the recent period of expansion and subsequent deflation. Certain difficulties and inadequacies, however, have come to light. The lack of satisfactory enforcement clauses, especially in preferred stock issues, has tended to nullify the protective provisions. In certain issues the actual ratio was at fault—either so high as to hamper the company unduly in its normal seasonal swings, or so low as to afford no real factor of safety. Sometimes the definition of current assets has included items which are not really liquid and in many cases there has been no proper safeguard against contingent liabilities.

An outstanding weakness has appeared in the inventory account and it is now more generally realized that this important item requires more careful study.

### TREATMENT OF INVENTORY

For example, in addition to providing that inventory be valued at "cost or market, whichever is lower," consideration should be given to the fact that inven-

tory should be fairly balanced and bear a proper relation to the volume of sales. Furthermore, the important point is often not what is in inventory but what is coming in or going out. For many a company its commitments have proved more dangerous than its liabilities. It is important so far as possible to have all contracts in elastic form and to avoid selling methods which might result in throwing back to inventory a large volume of products at the very time when it may be most difficult to re-market them. There have been attempts to limit by protective covenants these indirect inventory dangers but in such efforts the medicine may be worse than the disease. After all the aim of protective covenants should be merely to set safe bounds to the business such as the lender of money is entitled to demand.

In treating inventory in the calculation of profits, it is felt that the factor of increase or decrease in value of the inventory account through price changes should be as nearly as possible eliminated in order to stabilize profits by a more accurate allocation to the year in which actually earned. This may be accomplished in part by hedging or by a very rapid turnover or possibly by setting up a reserve sufficient to reduce inventory from book figures to some conservative level such as the lowest unit prices in the preceding ten years. Your committee is not prepared at this time to state definite conclusions or formulae as to the treatment of inventory but believes that the points briefly referred to warrant very considerable thought.

#### IMPORTANCE OF A SUBSTANTIAL STOCK EQUITY.

Among the many costly but valuable lessons of the past year is the danger to an industrial concern of heavy fixed obligations, in view of the wide fluctuation of prosperity and depression in a trading or manufacturing company. These fluctuations in net profits demand the limitation of fixed charges to an amount well within the minimum of annual earnings as well as adequate provision in the form of liquid assets to meet a temporary emergency. Borrowing by the successful company to increase the percentage of profit through trading on a thinner equity is justifiable and economically sound to a reasonable point, but immediate prosperity should not obscure future possibilities.

Companies with no long-term obligations and with only one class of stock have had comparatively little to fear in the recent readjustment. Such companies do not borrow, except from their banks to meet seasonal requirements. Expansion is provided through ploughed-back earnings, or through the taking of additional stock by the old stockholders, and a higher percentage of profit is sacrificed for an improved and increased equity. The owner of a stock which has no senior security holds a diversified investment which in effect corresponds to a first mortgage bond, a debenture note and preferred and common stock of a similar company with a less simple capital structure.

These companies have been financed largely from private capital and in order to make the type more common it will be necessary for investment bankers to do their share and sell *investment* stocks as well as bonds and notes. Many issues of stock which have been distributed to the public have represented only the capitalization of future earnings and consequently stocks have in general been considered speculative rather than investment securities. There is no reason, however, why consolidations and new corporations cannot be floated on an investment instead of

a speculative basis, or, if the proper care is exercised and the necessary responsibility assumed, why investment bankers should not sell *investment* stocks. With the broadening education of our investing public further progress in this direction is to be hoped for.

#### RESPONSIBILITY OF THE ISSUING HOUSE.

After the sale of an investment issue the originating house has an obligation which should be faced and frankly accepted. A market should be maintained in the issue as freely as possible and if anything goes wrong the aim should be immediate and active protection for the security holder through the formation of an energetic protective committee.

When re-organization terms are discussed, particular vigilance is required to make sure that any necessary sacrifice is fairly apportioned and that the burden of re-organization be made to fall first and most heavily on the common stock which has the entrepreneur's benefits and must assume the corresponding risks. So far as possible new money should be furnished by assessment of junior securities. If it is advisable to give in exchange for this new money a security senior to outstanding notes or preferred stock, such notes or stock should if possible receive compensation in the form of an increased income return or possibly a participation in the common stock.

## REPORT OF INDUSTRIAL SECURITIES COMMITTEE

Judging from available figures, the year 1920 broke even the 1919 record for volume of industrial financing, and the comparison is still more impressive if confined to fixed obligations—bonds and notes. According to the annual summary published in the *Wall Street Journal*, industrial companies furnished less than 20% of the amount of new bond and note issues sold during 1915. The percentages in succeeding years have been roughly 30%, 39%, 37%, 40% and 55% in 1920.

In view of the nature and purpose of most of the recent industrial financing its rapid growth might have been predicted from general conditions. The object of most issues in the last few years has been to finance inventories expanded not only by increased business but also by rising prices. The latter factor has been so important that we need not be surprised to see the volume of industrial financing follow in general the upward course of commodity prices. The aggregate amounts of industrial bonds and notes issued each year since 1913, are reported as follows:

1913.....	\$157,000,000	1917.....	\$460,000,000
1914.....	204,000,000	1918.....	381,000,000
1915.....	233,000,000	1919.....	521,000,000
1916.....	378,000,000	1920.....	1,025,000,000

Even though commodity prices should retrace their course to "normal," meaning vaguely the pre-war level, it does not necessarily follow that the volume of industrial financing will correspondingly decline. In this connection it is noteworthy that more than one-half of the 1920 financing came in the second six months

after the change in price trend. This apparent paradox is explained by the fact that the decline in sales and consequent backing-up of inventory more than offset the effect of falling prices, and outside assistance was therefore needed.

Such financing for the purpose of carrying inventories is liable to abuse in so far as it tends toward hoarding or unnecessarily prolongs the readjustment period. It is, however, a legitimate and healthy development if limited to the maintenance of an orderly decline and the prevention of panic markets. The urgent need for this type of financing is largely past, but we may expect for some years a large volume of refunding business either to meet short-term maturities or, if investment capital becomes cheaper, to redeem long-term issues with high coupon rates. Aside from these special causes, though new issues may well be in smaller volume than in recent years, a great number of industrial companies have become large or stable enough to justify investment credit. The public has been educated to appreciate their securities and will have increased confidence in the concerns which satisfactorily stand the present test.

#### DEVELOPMENT OF PROTECTIVE COVENANTS

The report of this Committee for 1920 referred to the covenants which have been evolved for the protection of the security holder. From this standpoint, the current period of reaction has a very special interest as affording the first real test these covenants have received. It should be remembered that industrial financing as we know it is the result of evolution and the note issues and protected stocks with their technical provisions are a comparatively late development.

Twenty-five years ago "investment securities" meant in general government or railroad obligations. The great industrial mergers of the consolidation period 1899-1902 were accompanied by large bond issues—in mortgage form like the railroad issues to which the public was accustomed, the immediate security being actual pledge of real property. This idea that fixed assets were the only basis for even moderately long term industrial credit continued for years.

The war boom, attended by a tremendous expansion of the "inventory companies" resulted in a change in this point of view. There were several reasons why this type of company more generally entered the investment field. Many of these concerns had expanded too rapidly to rely upon stockholders' money alone. They not only felt that their size and stability entitled them to investment credit and to the resulting greater profits to the stockholders through business expansion, but there was also the thought that this need for new money might not be permanent and the required capital therefore need not be furnished by the owners of the equity. There was also the situation that the banking system of the country, greatly taxed during the period of war and inflation, might not be able to finance the requirements of industry for a sufficiently long period. It was entirely natural therefore that these requirements should have been satisfied by borrowing from the public, and as was pointed out in last year's report of this Committee it was quite logical that such borrowings should have been considered deferred bank loans and should have been judged and governed by usual banking standards.

There were earlier examples, but it was only a few years ago that the protected note issue in its present characteristic form was generally accepted. With the idea in mind of an extended bank loan, machinery has been evolved by investment

bankers with the intent of insuring the maintenance by the borrowing company of proper banking credit. As everyone knows this machinery has taken the form of more or less standard covenants or agreements on the part of the borrowing corporation. Because of the history of the development of this form of financing, it was natural for the investment banker to take a leaf from the book of the commercial banker and tie up these covenants closely with the "quick asset" and "quick liability" position of the borrowing corporation. That the covenants should have taken this form was quite to be expected not only from the history of their evolution but even more from their very nature, for the balance sheet condition offers the natural yard stick for the purposes in view.

Although as stated hereafter earning power is the only ultimate measure of value of a going concern, and although it is possible that in the past earnings and their sources have not been sufficiently analyzed by investment bankers or the investing public, nevertheless experience has shown that it is less practical to make covenants relating to earnings than to balance sheet condition. Bank loans, deferred or otherwise, must be considered on somewhat of a liquidation basis, that is, there should be quickly realizable assets that can be turned into cash under any contingency even though the business should cease to be a going concern. It is on this basis rather than on expected or demonstrated ability to earn even large amounts that bank loans are considered. Moreover it is well within the ability of a cautious management of a properly capitalized concern to keep the balance sheet condition within given limits but the realization of a stated amount of earnings each year is, of course, beyond control.

Although the wording of the covenants at times is necessarily very complicated, their primary purposes in aiming to maintain proper banking credit were very simple, namely, conservation and restriction—conservation in preventing the dissipation of current assets in dividends or property account; restriction in limiting current debt, usually to a stated percentage of quick assets.

It is still too early in this test period to pass final judgment on the efficacy of such covenants. They are not a panacea for all ills and will not prevent an incompetent management from getting into trouble, but we firmly believe that their principle is sound and that in general they had a healthy restraining influence during the upward trend and that on the decline—particularly in the case of companies uncomfortably near the limit—they have exerted a real pressure toward economy and deflation.

However, certain difficulties and inadequacies have come to light. As mentioned in our report of 1920, the lack of satisfactory enforcement clauses—especially in preferred stock issues—has tended to nullify the protective provisions. In some cases the responsibility of the trustee sits much too lightly. In certain issues the actual ratio was at fault—either so high as to hamper the company unduly in its normal seasonal swings, or so low as to afford no real factor of safety. There have also been errors in definition of current assets, for example, the inclusion of advances to subsidiaries or stocks of subsidiary or affiliated companies when such items are not really liquid. In many cases there has been no proper safeguard against contingent liabilities. Too frequently the covenants have been so complicated and ambiguous as to tax the patience of the borrowing company and the trustee.

An outstanding weakness has appeared in the inventory account and it is now more generally realized that this vital part of an industrial balance sheet requires more careful study. For example it has been customary to provide that inventory be valued "at cost or market, whichever is lower" and prices have been carefully scrutinized, but the same consideration has not always been given to the fact that inventory should be fairly balanced and bear a proper relation to the volume of sales.

#### TREATMENT OF INVENTORY AND DANGER IN COMMITMENTS

It must also be remembered that the most serious aspect of the inventory does not appear in the balance sheet. The important point is often not what is in inventory but what is coming in or going out. For many a company its commitments have proved more dangerous than its liabilities. Long-term contracts for the purchase of materials or parts or for the sale of products in definite quantity at a fixed price are a constant menace, no less real because usually disregarded in the protective covenants. All contracts should be, so far as possible, sufficiently elastic both in price and amount to permit under any contingency a reasonable profit to all parties without in any case forcing a disastrous overloading of inventory when sales decline. Sliding-scale contracts based on cost of coal or posted prices of oil are well-known examples of the preferable form.

Another source of inventory danger may lie in the company's selling methods. Sales on consignment or long-term credit or with direct or indirect guaranty of purchaser's notes usually accompanied by repurchase agreements, may result in throwing back to inventory a large volume of products at the very time when it may be most difficult to re-market them.

There have been occasional attempts to limit by protective covenants these indirect inventory dangers, but in such efforts the medicine may be worse than the disease. There is always the possibility that the banker will think he knows the borrower's business better than the borrower himself. There is a real danger in hampering a successful business with limitations on methods of sale or in its contractual relations. The whole question comes down to one of management and points again the obvious truth that with rare exceptions an industrial issue is not an investment issue unless the company has stood the test of lean as well as prosperous years and its management is a demonstrated success. There is something to be said for the English theory of almost unrestricted loans based on satisfactory credit history as compared with our tendency to restrict the borrower; but it should be pointed out that the management of an English enterprise is by temperament as well as through experience probably more cautious than is the case here. The aim of protective covenants should be merely to set safe bounds to the business, such as the lender of money is entitled to demand.

#### MORE EMPHASIS ON CASH ITEMS

In the drafting of future current asset covenants it may be advisable to place less emphasis on inventory and more on the "cash position," i.e., the ratio of cash, good receivables and marketable securities to current debt. Experience may prove that a covenant to maintain a lower ratio based on these items is sounder than the



present system of including inventory. Or a compromise may be reached, perhaps including inventory under certain limitations, as that it be in balance, not more than a fair percentage of the previous year's sales, and priced at pre-inflation values. Until we have had more opportunity for practical observation any suggestions along these lines can be only tentative.

#### RELATION OF INVENTORY AND PROFITS

Although holders of bank loans are in theory concerned only that liquid assets be maintained in amount sufficient to pay their loans promptly, whether or not the business continues, nevertheless earning power is the ultimate criterion of value for a going concern. Inventory in the foregoing has been considered only from the balance sheet point of view, but a discussion of its relation to earnings is also appropriate and very important.

In a utility or railroad the determination of profit is a straightforward deduction of expenses from receipts. In an industrial it is customary to price inventory at the beginning and at the end of the period; the former figure is added to expenses and purchases, the latter to sales and the difference taken as gain or loss. Over a sufficiently long period this method approximates the truth, although it does not indicate the source from which profits are derived, but in a limited period, as one fiscal year, it may come far from revealing the true earning power.

Under this method of calculation industrial profits comprise two factors which can hardly be distinguished mathematically, but which nevertheless have an entirely different economic significance. There is, first, the normal operating profit, analogous to that of the utility or railroad, representing the spread at any moment between net sales and actual cost. There is, second, the increase or decrease in the value of the inventory account.

From the standpoint of conservative business the second factor in profit should be as nearly as possible eliminated. To a certain extent taking a market position in materials may be justified by the knowledge and opportunities of the management—admittedly good business comprises good buying as well as good selling—but the speculative danger is so great that it is properly an entrepreneur's risk and should be kept at a minimum in a business in which any considerable amount of borrowed money is used.

Under the foregoing method of inventory accounting a company may show for the fiscal year substantial profits, presumably to be added to surplus or paid out in dividends. Yet these profits may be largely locked up in inventory only to be wiped out in a declining market. It is also generally overlooked, but true nevertheless, that in a going concern a large part of the inventory is as much a part of the plant as the bricks and mortar. The individual units are in a state of flux, but short of actual liquidation and subject to seasonal variations there is usually a fairly definite physical volume of inventory necessary to the business. Our present method of accounting assumes that as of a given moment, say the close of the fiscal year, this inventory may be priced and set upon the balance sheet along with cash receivables as though it could be disposed of at a moment's notice and at a specified price. The past year with its history not only of declining markets but of the over-night disappearance of purchasing power has shown us

the fallacy of indiscriminately calling inventory current or of using it as a basis for the determination of profits.

It is generally conceded that in figuring periodic profits inventory should not be taken at current market prices without regard to cost, although this method is used by many less conservative managements. The result in case there has been any appreciation is to show as profits what are still merely hopes and cannot be realized until the final product is sold. Even the more customary practice of pricing inventory "at cost or market, whichever is lower" is in principle illogical. This method does not anticipate profits, but it does disregard possible losses in that it assumes the figure used to be a rock bottom one, and to that extent may build up a fictitious surplus.

Without discussing in detail the accounting machinery involved it should be the aim of industrial managements to stabilize profits by a more accurate allocation to the year in which actually—and permanently—earned. In some cases this can in part be accomplished by hedging or by a very rapid turnover. In the case of non-seasonal manufacturing or merchandising concerns in which there is a fairly definite normal volume of each class of inventory, the result may be partially gained by keeping inventory at a conservative figure, say the lowest unit prices for the preceding ten years, or by setting up, initially from surplus and thereafter from profits, a reserve sufficient to reduce inventory from the book figures of "cost or market" to some such conservative level.

Your committee is not prepared at this time to state definite conclusions or formulæ as to the treatment of inventory. It believes, however, that the points briefly referred to in the foregoing warrant very considerable thought not only by the investing public but by security dealers, issuing houses and even by commercial bankers, although the problem of the latter is comparatively simple, due to the early maturities of bank loans.

#### IMPORTANCE OF A SUBSTANTIAL STOCK EQUITY.

Among the many costly but valuable lessons of the past year is the danger to an industrial concern of heavy fixed obligations. The very special nature of a manufacturing or trading business involves comparatively wide fluctuations of prosperity and depression. In the upward swing of the business cycle the purchasing power of the public increases. The volume of sales expands more rapidly than overhead expenses, resulting in a more than proportionate growth of net profits. Prices rise in response to the quickened demand and net profits from sales are further increased through inventory appreciation. In the declining phase of the cycle the reverse is true, and the shrinkage in net profits is accentuated by competition which gradually eliminates the marginal producer.

These well recognized factors do not mean that an industrial obligation is in itself more hazardous than an investment in a utility or a railroad. They merely indicate that the industrial is subject to certain risks which require corresponding reasonable precautions. Specifically, these fluctuations in net profits demand the limitation of fixed charges to an amount well within the minimum of annual earnings and adequate provision in the form of liquid assets to meet a temporary emergency. For the successful industrial it is a natural temptation to borrow and thus increase

the percentage of profit through trading on a thinner equity. To a reasonable point this desire is justifiable and economically sound, but immediate prosperity should not obscure future possibilities. Funded debt should be fitted to the little and not the big end of the horn.

There is a certain school of financing which might be called the New England type, not because limited to New England, but because it harmonizes so well with Yankee thrift and is perhaps most frequently exemplified in that region. The exponents of this school do not borrow, except from their banks to meet seasonal requirements. Expansion is provided through ploughed-back earnings, or through the taking of additional common stock by the old stockholders, and a higher percentage of profit on the stock is sacrificed for an improved and increased equity. The owner of a stock which has no senior security or prior debt holds a diversified investment. He owns a cross-section of his company and is as well off as his neighbor who may have a first mortgage bond, a debenture note and preferred and common stock of a similar company with a less simple capital structure. Companies of this type have little to fear in the recent readjustment. Along with the rest of the commercial world they have faced a temporary shrinkage in profits, but have escaped the recurrent anxiety of semi-annual interest dates and a depleted treasury.

This so-called New England type has developed largely through private capital and in order to make this type of financial structure more common it will be necessary for investment bankers to do their share and sell *investment* stocks as well as bonds and notes. Unfortunately most dealers in securities sell bonds and notes as investment and only sell stocks of what they frankly admit are speculations or promotions, whereas there is no reason, if the proper care is exercised and the necessary responsibility assumed and granted to the issuing house, why investment bankers should not sell *investment* stocks. With the broadening education of our investing public further progress in this direction is to be hoped for. It must be admitted that in many cases where stock issues have been distributed to the public on a large scale, such issues were at the time not proved investments and represented only the capitalization of future earnings. There is, however, no reason why consolidations or new corporations cannot be floated on an investment instead of a speculative basis, or why large issues of proved investment stocks cannot be made, if the investment banker is willing to educate his clientele.

#### RESPONSIBILITY OF THE ISSUING HOUSE.

What comes after the sale of an investment issue? The originating house has an obligation which should be faced and frankly accepted. If all goes well, the house should strive for service in maintaining as freely as possible a market in the issue. If anything goes wrong—and until pure mathematics can be substituted for the human equation something will occasionally go wrong—the aim should be immediate and active protection for the security-holder. Prompt steps should be taken for the formation of a protective committee, cumbersome machinery, but when properly used, the most effective means available for representation of scattered security holders. Energetic action by the committee is necessary to offset the pressure of the junior equity and the large current creditors, most of whom

are in better position to make themselves heard than are the individual note or preferred stockholders.

When reorganization terms are discussed particular vigilance is required to make sure that any necessary sacrifice is fairly apportioned. There have been reorganizations in which additional capital requirements have been met through the creation and sale of a new senior issue to which outstanding securities were subordinated without further adjustment. There also have been instances in which senior and junior securities were scaled down in the same proportion. The effect of these methods is to penalize the notes or preferred stock equally with the common stock and at the same time preserve the full junior equity for the latter. If the preference of a note or preferred stock issue means anything, they should mean that the burden or reorganization must fall first and most heavily on the common stock, which has had the entrepreneur's benefits and must assume the corresponding risks.

So far as possible, therefore, new money should be furnished by assessment of junior securities. If it is advisable to give in exchange for this new money a security senior to outstanding notes or preferred stock, such notes or stock should if possible receive compensation in the form of an increased income return or possibly a participation in the common stock.

It is hoped that next year's committee, with the information that it will have available from current experience will be able to generalize from the history of various typical industries through the periods of war and deflation, especially in relation to the principles which would seem of most interest to the Association, as for example those governing protective covenants, proper financial structure and reorganization of industrial concerns.

Respectfully submitted,

HAROLD STANLEY, *Chairman.*

*The President:* Gentlemen, there are two topics of discussion of Mr. Stanley's paper. One is that of investment stocks and the other protective covenants. I think that most of you took pains last year to read in full the report of the Industrial Securities Committee and if you did you could not help feeling that it was a splendid contribution on the subject of industrial securities. I am sure when you go over the present report, you will find it is a further contribution on the same lines. We come here not only to converse with each other about every day affairs, but to try to thrash out some of the problems which bother us in our individual business, and I am going to ask Mr. Wendell if he won't lead this discussion on both of these subjects. Now I hope if anybody has any ideas on the first subject, who cares to express himself on any of these questions or desires discussion, I hope he will feel free to do so. Gentlemen, the floor is open to you for this purpose, and I want you to take part freely in this discussion.

*Mr. Wendell:* I don't think we have heard from Mr. H. P. Wright of Kansas City on any subject in this convention, and I would like to hear him on this subject, on investment stocks. Mr. H. P. Wright of Kansas City. [Applause.]

*The President:* Mr. Wright, won't you come forward please?

*Mr. Wright* (H. P. Wright Investment Co., Kansas City): Mr. President, and Gentlemen, it seems to me that in industrial securities as well as in utility securities which have been discussed here, there is a new element that is coming into it whether we recognize it or not. You may call it a modified form of socialism if you like, but it is an element which is coming to stay, and we have to reckon with it as investment bankers, and that is that everybody is claiming that in all corporations, no matter what the purpose is that the public has some kind of a vested right. That is the basis of the control of railroads and the basis of the control of utilities. Every public utility in the country is based on that and every control of rates and every Blue Sky law. The whole matter seems to indicate that the people are coming to the conclusion that they have some kind of right in every corporation no matter what its purpose is, but the fact that it gets its right from the public indicated that the public has got some kind of a continuing interest in it. As investment bankers, we have to reckon with it. We can't dodge it. It is coming to stay, and I think in the financing of industrials and particularly of public utilities, you have to figure on it all the time. You take the case of public utility; some one raised the question this morning in the report, but I don't remember who brought it up now, that the preferred stock would have to be sold on such a basis, as would absorb practically all the earnings which the law would allow you to make. I think that is true. You have to recognize it, as a condition to be met hereafter, and treat it the best you can. Suppose a public utility is allowed to earn eight percent, and you put out eight percent preferred stock; in other words, you are giving the holders of the stock all that you are able to earn. The result would be that you must sell preferred stock where it will bring you an amount of what you might call political insurance. That is, stability. Suppose you sell the eight percent preferred stock at par and sell it where that corporation operates. Now the very fact that it is sold at par is

going to stabilize your preferred stock—or your bonds which come before it and it is also going to give you an assured price on the common stock on which you will make your profit, on which you will earn more than otherwise. Now that is a situation that we must face as investment bankers, and we might just as well recognize it. In industrials it is going to be the same way, only the stabilization as to the business is going to come in a little different way, not by regulation by a utility commission, but by regulation through competition. I think that is all I have to say, Mr. President. [Applause.]

*Mr. Wendell:* Gentlemen, if you recall the things in the report, you will remember that the chairman of the committee really spoke of two things and one was covenants and one was earnings. He made the suggestion, which strikes me after my deep study of the report [laughter] as being quite putting. As a matter of fact, if you are going to put money into a business, you want to know whether or not over a period of years it can earn something. It strikes me in looking over the advertisements describing preferred stocks, that there have been a lot of covenants in them which might prove dangerous. I think the best ones have been the requiring of certain fixed assets and certain fixed relationship, net quick assets, and liabilities, or net quick assets and the preferred stock. They have taken into consideration the fact that the sun doesn't always shine, and the company might have only net quick assets, but very few quick assets of any kind. That is what they were borrowing for, they don't come to us to borrow because they want long quick assets. My experience is limited to Lee, Higginson & Co., but they have not come to us for them. Am I right, Mr. Hallowell? And therefore I think in reading over the report which was written by Mr. Stanley with a great deal of care, and a man whose judgment is very good, and whose judgment on any subject is well worth considering, you should take in the proper consideration in drawing your preferred stock provisions for note provisions. I would like to ask Mr. Borton if he has any light that he can throw on these questions. Don't mind coming forward with me. It is not a very difficult thing, I did not know much about the report except that I read a few words ahead before I read them out loud. I think the question of industrial financing is a very pertinent one

of the preferred stockholder. It seems to me from my brief experience in industrial financing that that is the important feature of the whole preferred stock contract, the limitation of the expenditure of money for the benefit of the common stock.

*Mr. Sinclair:* I think that his dividend should be limited to the legal rate of interest on money in the state in which he is incorporated, and that his additional earnings, which I would not limit in any sense in the word, should go back into the business, subject to the preferred claims of the bondholder, and the preferred stockholder, and as long as he has bonds and preferred stock out that he should not be allowed to draw more than the legal rate of interest in the shape of dividends.

*Mr. Murch:* Does that restrict common stock dividends payable in stock?

*Mr. Sinclair:* Absolutely the legal rate of interest. I would not limit his earnings, but they should leave it in the business subject to the prior equity of the bond and preferred stockholder.

*Mr. Murch:* I mean dividends payable in stock.

*Mr. Sinclair:* A stock dividend does not cost you anything. It is the money that you pay out that hurts your security holder. You can increase the amount of common stock all you want provided it is not issued beyond the fair value of the property and you are going to pay dividends on it afterwards. I said that the rate of dividend on the common stock should be limited to legal rate of interest on the legitimate investment in the property and beyond that any earnings which you make, which I do not think should be limited at all, should go back into the business for the protection of the man who has advanced money on junior securities which are limited in their rate of return and therefore should not be asked to pay beyond that. I think the rest of your covenants, no matter what the intention was, or in how good faith they are issued, are more apt to hamstring the company and limit them than they are to assist you in collecting your proper return. I have arrived at this conclusion after some painful experiences, and I did not hold these views three or four years ago. [Applause.]

*The President:* Gentlemen, has anybody anything to contribute on this discussion? It seems to me to be a sad thing to leave it at an interesting point like this. Mr. Sheldon suggests

*Mr. President:* Mr. Sinclair, won't you say something on this subject?

*Mr. Sinclair* (Estabrook & Co., New York): I have watched with a great deal of interest, Mr. President and Gentlemen, during the last four years, the raising of capital for industrial enterprises due to the very rapid expansion of our industry after our entrance into the war, and I think many of us with the best intentions in the world have been misled in trying to place ourselves in the dual position of a partnership and creditor at the same time. [Applause.] A stockholder is a partner in an enterprise, and you can draw all the covenants you want and you can't make him anything else. A creditor is in a different position. He is not a partner and the very minute you try to place a man in the dual position of a creditor and a partner at the same time you have attempted the impossible. Now if I want to make a man a partner in an enterprise and I want to get the best result I can out of that partner I don't hang a lot of restrictions around his neck when I send him around to do business for the joint account. If I lend a man money I first want to know that he is honest, but apart from that I may wish to place restrictions upon my security. When I want him as a partner I don't want to place any restrictions on him at all. Now I did not hold these views three or four years ago that I hold today. I have learned them from experience, and I have come to the conclusion that the only protection that a banking house can give to a stockholder is to have that banking house represented on the board of directors of the corporation whose securities they are selling and to have them watch the progress of that corporation, and even if they can't control it, which you could not expect they would be able to do, that they are at least in a position to raise the voice of warning when they go beyond the bounds of prudent finance or prudent commitments. Therefore I do not think that all the restrictive covenants, barring only one, that the rate of dividend on the common stock should be limited until certain conditions have been complied with, are worth the paper they are written on. [Applause.]

*Mr. Murch* (Maynard H. Murch Co., Cleveland): I wish Mr. Sinclair would define the condition under which he thinks the common stock dividend should be limited for the protection



tions—which you are familiar with—we have found that the most carefully drawn preferred stock seems in the end, in an emergency, —like this, to be preferred only in name; and I would like to endorse Mr. Sinclair's recommendation that we cannot draw covenants that will prevent us or keep us out of all trouble. We are hamstringing the companies sometimes just at a time when it would need the most latitude. For the sake of illustration I would like to tell you a story of the first week that I was in the bond business as a salesman. I was asked to go to an inland city and try it on the dog. A list was given me of people who had bought of our firm in that vicinity and who were considered good prospects, and in calling on the latter I came to the proprietor of a department store—a big red-faced Scotchman with a beautiful burr in his voice, and he greeted me very cordially. He said "Come in, Son, I am glad to see you. I always thought well of your house. I thought now and then I would buy a few bonds of you, but I never did. What is your leader today?" I thereupon trotted out the leader that I had carefully committed to memory and I recited some earning figures and the capitalization and he put up a big hand and said "Wait; don't talk figures to me. I have learned that nothing lies like figures, except the facts. There are gentlemen clever enough to twist them both so you would not recognize them. When I make an investment I buy nine-tenths man and one-tenth property and in fifty years I come out all right. Who is the man who is running this concern"? I said, "Mr. Glenn, I don't know; I haven't got that far." He said, "Go and find out, young man, and maybe I will lend him some of my money. When I pass my money to another man to take care of I would like to know that he has the same respect for it that I have." [Applause.] Now, he was very friendly and I put a pin in there and resolved that I was going to go to school to this man who had been fifty years here, and I said "Go ahead, Mr. Glenn. Tell me the rest of it, because I have only been one week in this business and you have been fifty years in it." And he said "Well, I will tell you. I have a baby up home and the reason I mention it is that she is a socialist. She goes through my pockets every now and again for chocolates, which sometimes she gets. Where she got the idea, I don't know—not from her mother and not from me, because we were born in a land where

you never get something for nothing. The climate is poor there, but satisfactory. It breeds men competent. As you wander up and down this world and you come to a good job you generally find a Scotchman holding it down. You never find a socialist holding it down. I am not telling you that I am only lending my money to the Scotch, but I know he has the same idea of money that I have." So, I say as we consider investment stock it gets down pretty nearly to the character of the man we want to endorse before we put our hall mark on the security and recommend it to our clientele. We always want to consider it from that aspect. The policy of the American Car & Foundry Company in the past three or four years such a conspicuous success, paying away their dividends in Liberty Bonds over three years in advance; the policy of the Fruit Company and other companies which you are familiar with; they make such a contrast to the people that have not the Scotchman's respect for money. [Applause.]

*The President:* Gentlemen, we have left a very convenient amount of time to take up what I think you will find to be something that is very interesting, and if there is no further discussion of this subject, although there might well be, we will proceed to the next part of the program. We have now come to that part of our program which calls for consideration of the subject: "Why and How People Buy Bonds." We are very fortunate tonight in having with us two of the vice-presidents of Albert Frank & Company, Mr. M. Robert Herman and Mr. John Watson Wilder. I am going to introduce Mr. Herman first, and then Mr. Wilder is going to be introduced next and will give his talk.

(The address delivered by Mr. Wilder is not published herein. The text may be obtained from Albert Frank & Co., 14 Stone Street, New York.)

*The President:* Gentlemen, before you leave the room I have just one more thing to say. I think both Mr. Herman and Mr. Wilder as well as Albert Frank & Company deserve the thanks of this Association. Without question this has been probably one of the most interesting and instructive surveys that has been brought to our attention. It certainly has been one of the most interesting that has been brought to mine, and I don't see how you can fail to profit by it. I want to say that Albert Frank &

Company came to us with this matter in a very hesitant frame of mind. They undertook this survey simply on their own account and for their own satisfaction and for their own business, and we appreciate very much their willingness to give us the benefit of it.

I just have one more thing to say and then today's session of the convention is closed. Tomorrow morning we have a forenoon session and in the afternoon we have a golf tournament. I hope we can have a very full attendance in the morning and I hope we can begin promptly at half-past nine.

*Mr. Prescott:* There is a resolution that I desire to offer at this time and I desire to offer it for two reasons: First, because it has been suggested to me by our very worthy and competent Secretary and I feel sure that every one present who has had the privilege of an acquaintance with the gentleman to whom it refers will be most happy to have the privilege of voting for it. Secondly because I believe that the resolution is now timely. I will now read the resolution:

*WHEREAS: It has become known to us that Mr. George H. Taylor of Chicago, Vice-President of E. H. Rollins & Sons, has for some time past been sorely ill and is therefore unable to be present with us at this convention, and*

*WHEREAS: He was active and influential in the organization of this Association and during its entire life has been one of its most loyal, enthusiastic and useful members, serving as a governor, laboring on its important committees, attending its meetings and conventions unfailingly save only in case of illness, taking especial pride in its increasing success and influence, and*

*WHEREAS: The breadth of his friendly interest in all of us, his kindly tolerance and sympathetic understanding, his dignified, though full spirited participation in our social pleasures, have endeared "Uncle George" to the members of this Association, and we now in his absence from this convention not only miss the sage counsel of this dean of our profession, but especially his genial personal presence, therefore be it*

*Resolved, By the Investment Bankers Association of America, in annual convention assembled, that the Secretary be and he is hereby instructed to express to Uncle George Taylor, as well as words may do, our profound sympathy and solicitude for him in his illness, and our earnest prayer and hope that he may be speedily and completely restored to health and vigor and to our midst.*

[Great applause.]

*The President:* Gentlemen, you have heard the motion. Is there a second? (Thereupon the motion was seconded and adopted by rising vote.)

Gentlemen, the motion is carried and we will now adjourn until nine-thirty tomorrow morning.

## WEDNESDAY MORNING SESSION

NOVEMBER 2, 1921.

*The President:* Gentlemen, the convention will come to order. The first thing on the program this morning is the open forum for discussion of problems confronting and relating to the various groups. I notice just as the convention opened the vice chairman of the Michigan Group came into the room with his usual promptitude. We shall be very glad indeed to hear from Mr. Lerchen if he has anything to say on this subject. Will you please come up to the front, Mr. Lerchen.

*Mr. Lerchen* (Watling, Lerchen & Co., Detroit): Mr. President and Gentlemen, Mr. Julian Harris before he went away asked me to give you just a digest of what we have been doing in Detroit and in Michigan with the group.

## MICHIGAN GROUP REPORT

The Michigan Group of the Investment Bankers Association of America has held practically no meetings as a group during the past year. The Executive Committee, however, has met whenever occasion required, and their attention has been given particularly to some legislative matters which were of particular interest to the investment banking fraternity. These matters are as follows:

In the early part of the legislative session, a bill was introduced by Rep. Lord, which aimed to repeal the law in Michigan, which allows the payment of a specific tax on secured debts and outside municipal bonds, thereby making them tax exempt to maturity. The bill was passed by the House and reported out by the Senate Committee and was re-referred to the Committee where it is still held.

In the Senate a bill was introduced by Senator Osborn, which provided for the payment of a specific tax of  $\frac{1}{2}\%$  for each five years or fraction thereof and also provided penalties for non-payment which were drastic enough to insure the payment of the tax. This bill, I believe, is still in the committee. In the opinion of those active in the matter, some measure along the lines of the Osborn Bill will be the final outcome of the situation.

**MUNICIPAL LAW:** A bill to regulate the issue of bonds by municipalities was prepared by counsel engaged through the Municipal Committee. This bill passed both houses of the Legislature but was vetoed by the Governor probably because it provided for the sale of bonds at less than par under certain conditions. This probably will have the attention of the Municipal Committee at the next session of the legislature.

**USURY:** Under the old law of the State of Michigan, any rate of interest or charge for money in excess of 7% was usurious and voided the interest. Interest so paid was held to have been paid on principal. The courts have also been quick

to condemn any subterfuge in the way of underwriting services, bonuses, etc. On May 18, 1921, an Act was approved, keeping the maximum rate at 7%. This Act also provides that it "shall not apply to the rate of interest on any note, bond or other evidence of indebtedness issued by any corporation, association or person, the issue and rate of interest of which have been expressly authorized by the Michigan Public Utilities Commission or the Michigan Securities Commission." In the opinion of counsel, careful attention in presenting issues should be given to the specific authorization of the interest rate and other charges. Unless this is done, it is felt that there is danger that the ordinary approval for the sale of an issue by the commission does not cover the situation.

**BLUE SKY LEGISLATION:** The Michigan Group found upon investigation that the bulk of criticism directed at the old Michigan Blue Sky law was aimed particularly at the matter of consent to service and the fact that tentative approval which the commission had been giving in some cases, did not protect the investment banker. Under the new law, consent to service is limited to "suits and actions arising out of or founded upon the sale or offering for sale or holding of said stock, bonds or other securities." The matter of protection under tentative approval is taken care of by a clause which provides that the commission "may make such rules and regulations as may be necessary to carry out the provisions of this Act, etc." and "any order, authority or permission made or granted by said commission under any such regulation shall be of equal force and effect and provide the same protection as if made or granted under a specific provision of this Act."

While as far as meetings are concerned, the Michigan Group has seemed to be inactive, we are confident that the group idea is a step in the right direction on the part of the Investment Bankers Association of America. The group undoubtedly provides a means of giving energetic attention to matters which are of interest to us as a whole and which would probably receive much less attention if left to the initiative of the individual members. In such matters the group has a very much stronger position and receives consideration which would probably be denied to any individual member.

Fortunately, the Michigan Group has not found the necessity of any activity, in matters relating to syndicate agreements, or relations between its members. We believe, however, that the Group idea provides the best means of handling situations of this character and that it can be made useful in practically all phases of the investment business.

*The President:* Does anybody desire to discuss any of the matters referred to in the report of the Michigan Group? It has been the experience of the Board of Governors this last year that the organization of the groups has been a very strong factor in accomplishing work of the Association that has been rather difficult to accomplish before. The careful organization of the groups in every respect in their respective districts has given us the skeleton of an organization that we can call upon for quick

action whenever we need it, and it has been demonstrated on two or three occasions that the group organization is not only going to develop the needs and ideals of the Investment Bankers Association of America in their own local communities, but is going to help the work of the national association very materially. Mr. Wendell, have you something to say for the Central States Group?

### CENTRAL STATES GROUP

*Mr. Wendell:* I would like to say this about the Central States Group: We were very fortunate in starting out with Mr. Stevens, Mr. Glore and other members of the executive committee. We were able to interest in the group idea the strongest men we have on the street in Chicago, the Chairman being Mr. T aylor, and the Vice-Chairman Mr. W. L. Ross, the Chairman of the Membership Committee, Mr. Clarke, and the Chairman of the Entertainment Committee, Mr. McNair of the Harris Trust & Savings Bank, and the Chairman of the Fraudulent Advertising Committee, Mr. Bermingham. We had on those committees a number of very fine fellows. There were one hundred and thirty-six possible members in that group. There were one hundred and twenty-two of them who were members and of the remaining fourteen eight represented branch offices in Milwaukee, for instance like Halsey, Stuart & Co., Ames, Emerich & Company, and there were six houses of the remaining fourteen that we did not push to come in. So, for all practical purposes we had one hundred and seven, and we had fifty-two associate members. We had a meeting of the group last September at which one hundred and sixteen were present, and then one in December where there was another one hundred and twenty-one present.

And the third one with one hundred and ten and the fourth meeting with ninety-three. They were all dinners and all moved smoothly. We appointed a special committee. I am not going to speak on the Legislative Committee because Mr. Ross is here and I am going to get him to tell you about that, but we appointed a special committee on the subject of interim receipts at the request of Mr. Stevens. The Chairman of that Committee was Mr. Howard Fenton of the Harris Trust & Savings Bank. They had a meeting and discussed things back and forth; on September 26th they put in the following resolution. This has not been

acted on by the Central States Group, because I expected before coming here that Mr. Stevens would be the Chairman of that Group. He will be next week, but the constitution of the group prohibits his election until after this meeting here, so the group has not had a chance to discuss it. The resolution is as follows:

*WHEREAS, The practice of issuing insecure interim receipts has resulted in financial loss to the holders of certain interim receipts, now therefore be it*

*Resolved, That this committee recommends an effort be made to develop the practice of embodying in each interim receipt a statement informing the holder what provision is made for its redemption, namely, by the deposit of funds with the issuing banker, by the deposit of funds with a named bank or trust company, by loans against New York Stock exchange collateral or by what other means seems satisfactory to the issuing banker, and*

*Resolved, Further that effort be made to develop the practice of embodying in syndicate agreements a full description of the interim receipts in terms thereof.*

That point was raised there because a firm I think in Oregon issued its own temporary receipts and took temporary receipts in from the bank; issued its own temporary receipts and finally failed owing about two million dollars, which caused a lot of feeling out in that country.

Our dues are pretty low. The dues for active membership are ten dollars a year, for associate members one dollar. We had to go around and collect a little money for attorneys' bills, but not very much. One thousand five hundred seven dollars and sixty cents represents our total expenses for attorneys during the year and five hundred twenty-five dollars and thirty-four cents the other running expenses. Mr. Ross, have you anything you care to say?

*The President:* Mr. Ross we would be glad to hear from you.

*Mr. Ross* (William L. Ross & Co., Inc., Chicago): My work in this group has had to do with the legislative feature and more especially with the Blue Sky work in Indiana, Illinois, Iowa and Wisconsin and I think you are advised of the fact that in three of these states an extreme improvement, or modification of the laws has been accomplished in the past year. We managed to eliminate from the laws, the contingent liability which we felt was too great for any of the bond houses to bear, in the ordinary offering of bonds. We found that they carried a liability in many cases which aggregated amounts greatly in excess of the capital, and we have had this changed so the liability of that kind has been

eliminated. In early meetings you have heard of some of the troubles which we still have in Indiana. There is work to do down there yet, but we hope that we will get it straightened out eventually. I will say so far as the Legislative Committee is concerned, that it has been extremely fortunate in that its work has been done mostly by a man who is a member of the Association and who is an absolute genius in the handling of political situations, namely Mr. Wendell. [Applause.]

*The President:* Mr. Witter, as Chairman of the California Group have you something to say?

### CALIFORNIA GROUP

*Mr. Witter* (Blyth, Witter & Co., San Francisco): Mr. President and Gentlemen, we have a certain kind of pride in group organization in California, because I think California was the pioneer in such organization or at least in the advocacy of the organization of groups. Inasmuch as that part of the country is so isolated from the rest of the United States, perhaps our local problems have been somewhat more serious than other parts of the country. We have certain things which arise which are essentially local matters. I think it was in 1919 that the group organization was first advocated and I think the California Group was first organized under the provision changing the constitution of the Association. The problems of investment bankers can be divided into two classes; the first class is problems affecting the nation, and of course those can be well handled by the national Association, but there are certain problems with reference to legislation, and certain social problems, and those relating to the control of business and ethics and practice which are local problems and should be handled by local groups. Various committees provided for in the constitution have been organized in California, and in addition we organized a legislative committee which I think is not provided for. At the last session of the legislature in the early part of the year, we organized a Legislative Committee which did some very effective work. The secretary of the committee went over a great number of bills presented in Sacramento and dug out I think about seventy-five which affected investment bankers either directly or indirectly. There were



certain sub-committees formed to look after the questions of irrigation securities and taxation, and such things as that and when the bills came in they were referred to the various sub-committees, and proper consideration was given them, and proper recommendations were made to the legislative committee. As a result of that, we were successful in staving off every bill presented at the legislature which we thought was bad for the bond business, and for the people we represented, and that should not be passed. I think it was the California Group that first suggested the creation of a committee on ethics and practice and that committee I am glad to say in California has had practically nothing to do. There have been certain kinds of violation by syndicate dealers in California before the committee was appointed, and we sent out circulars at the suggestion of the executive committee of the California Group and invited all of the syndicate dealers to be present, and a resolution was passed by the syndicate dealers in California, and a committee on business ethics and practice was formed. A few dealers were not present and did not sign up an agreement, but they were circularized later by a letter, so that they signified their approval of the idea and that they were willing to abide by the decisions of the committee or else place themselves automatically in an outlaw class. We obtained pretty strong control of the business practice situation in California, and I am glad to say that there have been only one or two minor cases submitted to this committee. I don't know whether the situation there is better or worse than it is elsewhere in the country, but I think the effect of the committee has been a warning to the dealers, and that it has accomplished its purpose without the necessity of taking very definite or drastic action.

It is realized to even have a complaint submitted before that committee would mean the practical ruination of an investment house in that section of the country, and the knowledge that they had been tried and found guilty of any violation of good business practice, or any violation of syndicate agreements would in itself, I believe, result in their early elimination from syndicates and their ostracism and their right and privilege to do business with legitimate houses. I think that situation has been fairly well controlled out there. I believe that the groups have stimulated

and inspired a great deal of interest in the national Association which did not before prevail. Owing to distances that separate that part of the country from the east the Investment Bankers Association of America was more or less a name to most of the dealers prior to the time they had the local groups. They got the BULLETIN, to be sure, and a very few attended the conventions, but the workings and the meaning of the Investment Bankers Association of America was not made clear to the dealers in that section of the world until they had a local group and until the I. B. A. of A. functions and operations were brought more closely home. I think the increased interest that has been established in the national Association by the formation of the local groups is pretty well indicated by the fact that there were forty delegates from the coast, I believe, attending this convention and when you take into account the fact it is 2000 miles more or less from here and that a railroad strike threatened to intervene which might make it somewhat difficult to get back home, I think that attendance is an indication of the interest which the dealers on the coast are taking in the national Association. [Applause.]

*The President:* I might say by way of a side remark that Mr. Witter's allusion to the strike situation recalls some very interesting sessions the Board had by wire the middle of last week. The California Group had to start on Wednesday in order to get here on time and naturally they were the first ones to take the gaff on the situation. We decided that we would go through with it. We intended fully to go through with the convention whether there was a strike or not, and I think that the California delegation and the Pacific Northwest delegation who came with them deserve a great deal of credit for going through before they knew finally whether or not we were going to have a strike. [Applause.] The Eastern Pennsylvania Group, Mr. Hansell.

### EASTERN PENNSYLVANIA GROUP

*Mr. Hansell:* Mr. President and Gentlemen: Our work the past year has consisted of about the same work that other groups have undertaken. We have had a Blue Sky bill proposed in the state legislature. We coöperated with the Western Pennsylvania Group and there were so many objectionable features to it that

finally the bill was entirely dropped and will go over for a period of two years. We have had a great deal to do with a local organization called the Better Business Bureau of Philadelphia and have been able to keep fraudulent advertising pretty well out of the Philadelphia newspapers and also the newspapers around Philadelphia. We have had only one general meeting but the committees that have been appointed have been functioning very well.

*The President:* I am not going to ask for any specific discussion of the questions raised in these group reports, but if there is any member of each group as his particular group is called on the program, who has anything he cares to say, the Chair will be very glad to recognize him, and I am sure the convention will be glad to hear anything from him.

### MINNESOTA GROUP

*Mr. Kennedy* (First National Bank of Duluth): We have a membership of eighteen with a possible membership of five additional. We have had four meetings during our year, the first one being the organization meeting of August, 1920. Our largest and most carefully attended meeting was one we had in April of 1921, when Mr. John Moody was the principal speaker, to which about five hundred of the investors and larger business men of the Twin Cities were invited and listened to a very interesting talk. In the way of our actual business or accomplishments they have been rather small because we have not had a great deal to contend with. One of the principal things that has been centered on in the way of activity has been the recodifying of the laws. We have a number of bond laws in Minnesota that are obsolete and when it comes to a municipal issue it takes more than a Philadelphia lawyer to go back and figure out how many different kinds of bonds can come out in one school district. By reason of the legislature not having made any appropriation for this work in 1921, we were delayed until the next succeeding session to get this municipal law recodified to a place where it will be operative and efficient. I haven't anything else.

*The President:* Is Mr. Dalton of the New England Group in the room? Is any other of the executive committee here this morning?

## NEW ENGLAND GROUP

*Mr. Hallowell:* I will make a very short report for the New England Group, which has not been organized very long. Before the formal organization of the group took place a lot of the members formed themselves into an informal group to consider the Blue Sky legislation which was passed. The bill which was presented to the committee of the legislature was an extremely bad and dangerous one, so before this group organized we got together to fight it and to see if we could not do something with it. It finally resulted in the passage of a bill which is rather complicated but not dangerous in any respect and which may have the good effect of keeping out the crooks. So, the New England Group, although only organized a short time, has done one very substantial piece of work. The only meeting held so far has been a meeting at the Country Club, which happened about two weeks ago and was very successful, especially as a get-together meeting.

*The President:* Is Mr. Wilkinson here, of the New Orleans Group, or Mr. Thorne, Vice-Chairman? I presume they are so active in trying to keep up the fine entertainment the New Orleans Group is responsible for that they really ought not to be called upon this morning unless they desire it. Is there any one of the executive committee of the New York Group here this morning? I know Mr. Clark was detained.

## NEW YORK GROUP

*Mr. Sheldon:* I was impressed yesterday with the thought brought forward by Mr. John Baer of Baltimore in regard to the necessity of constituting ourselves a vigilance committee. We can secure legislation good and poor but what does it amount to unless each one of us makes himself a vigilance committee to put out of business, or bring to the attention of those who are constituted a committee to look after the crook—bring to their attention the fact that he is operating. Most of the time we are looking at the barn door after the horse is gone, and thinking about the lock we should have put on. I believe that if we would, every one of us, call attention to the fact—and we generally

know every now and again of specific instances where somebody is doing a disreputable business and besmirching all the rest of us—and if we could all get on the vigilance committee I think we would do as constructive a piece of work as the Investment Bankers Association of America could possibly do. I want to thank Mr. Baer—him and his committee—who have made it so hot for the crooks in Maryland that they have had to adjourn over to the District of Columbia.

*The President:* Is Mr. Powers in the room? We would like to hear from him in regard to the Mississippi Valley Group.

### MISSISSIPPI VALLEY GROUP

*Mr. Powers* (Mercantile Trust Co., St. Louis): Mr. President and Gentlemen, the Mississippi Valley Group has not anything especially to report, except our activities in trying to counteract the bad effects of newspaper and magazine articles regarding the State of Arkansas, in which a great many St. Louis people are interested. We feel we have accomplished very good results in that respect and I am glad to say that Arkansas securities are coming back into their own. It might be interesting to you gentlemen to know that we had an investigation made of several of the states right around our territory, and the investigation developed that the tax payments this year in the State of Arkansas, notwithstanding the depression and the low price received for cotton, were better than any of the states investigated, which includes Ohio, Illinois, Missouri, Indiana and even Louisiana. We are still working on the situation and I think we have it well in hand and that Arkansas securities will be back in their own before the first of the year. [Applause.]

*The President:* Is Mr. Tillotson, Chairman of the Northern Ohio Group here? We will pass that group for the moment. Mr. Gordon Reis, Chairman of the Ohio Valley Group has been ill and unable to be present. I will ask Mr. J. R. Edwards, Vice-Chairman, if he has anything to report in behalf of the Ohio Valley Group.

### OHIO VALLEY GROUP

*Mr. Edwards* (Fifth-Third National Bank, Cincinnati): Gentlemen in behalf of Mr. Gordon Reis, Chairman of the group

I am requested to make an oral report, and I find myself somewhat at a disadvantage. Drawing on my knowledge of what we have done, I wish to report that the committee on Blue Sky has coöperated with the state department in every particular in so far as we could. The committee on Business Ethics has had several meetings and the work is progressing very nicely. The committee on Legislation is having a great deal to do, for the reason the Ohio tax laws are not in very good shape, and I think it will be necessary for us to have a constitutional convention very shortly. That committee has coöperated in giving temporary financial relief to various cities, due to the fact that we have the Smith one per cent tax law. The Committee on Government Bonds has had several meetings and has adopted a uniform commission which was suggested by the Investment Bankers Association of America. It has also been somewhat instrumental in coöperating to start a Better Business Bureau in Cincinnati, which is in process of formation.

*The President:* Is Mr. L. E. Eyman, Chairman of the Pacific Northwest Group, in the room? Is Mr. Ferris, Vice-Chairman?

### PACIFIC NORTHWEST GROUP

*Mr. Ferris* (Ferris & Hardgrove, Spokane): Gentlemen, the Pacific Northwest Group is the youngest group, I think, so far as getting into action is concerned. It has only been organized now about six months. We have had two very active meetings. Our failure to organize earlier, I think, was due to the fact that both the States of Washington and Oregon, which constitute the group, had active local organizations taking care of legislation, but we find, in the short time we have had the organization, much has been gained and is to be gained by the united efforts of the two states. Our membership is about thirty and they are located in the cities of Seattle, Spokane, and Portland. We have had no legislative problems to meet as an organization as yet. We have found that we can accomplish much by united action. The one point I would suggest that has not been covered is in the nature of publicity as a group—giving publicity to our meetings and to the elements that enter into the Investment Bankers Association of America. We could secure a great deal of publicity,

newspaper and otherwise, with reference to the membership and what we are trying to do and the standards we are trying to set. That has been particularly important to us due to conditions in our section, where one member of this Association failed in Portland with nearly two million dollars liabilities, and three failures in Spokane in stock exchange houses. I think that by publicity we have done much to counteract that bad influence. We are firm believers in the group organization.

*The President:* While it is true the Pacific Northwest Group was the last to organize, I think they are going to make up in enthusiasm and work what they have lacked in time of getting started. Now, we have the Rocky Mountain Group. We would like to hear from Mr. Wade, Secretary of the group.

### ROCKY MOUNTAIN GROUP

*Mr. Wade* (Will H. Wade Co., Denver): Mr. President and Members of the I. B. A. of A., the Rocky Mountain Group covers more territory than any other group. It is the highest group—in altitude—and has fewer members according to area than any other group. Therefore, our officers and heads of committees—every member is on a committee—are all very happy and all jealousies have disappeared from our group, so that the committees are all working harmoniously. We have the Legislative Committee and the Fraudulent Advertising Committee—and we don't have to watch the legislature out in our country—so that our greatest work for the coming year is going to be in the vigilance committee, because all the advertisements printed in Indianapolis are printed out in Colorado. In fact any advertisement that anybody wants to publish is published and the public buy, whether it be in connection with oil, mining or any other kind of advertising. They can all do business freely in Colorado and if you want to go out there we will be glad to have you. We have plenty of good meetings and have a generally good time, including golf matches.

*The President:* I notice Mr. Tillotson, Chairman of the Northern Ohio Group has come into the room.

## NORTHERN OHIO GROUP

*Mr. Tillotson:* Mr. President and Gentlemen, I have been told to tell you that the members of the Ohio Group are in perfect harmony—such great harmony that we have not had very many meetings. In fact none of the Cleveland members or Toledo members or the Chairman can remember having had any meetings, [laughter] but the Executive Committee has had one meeting. Mr. Hayden and Mr. White were the only ones who attended, and they decided, Mr. Chairman, there was no business. I can say this truthfully and very seriously, that the members look forward with great anticipation and great pleasure to a change in the personnel in the group which will take place soon after this convention. [Laughter and applause.]

*The President:* Gentlemen if it were not for the long and intimate and enjoyable acquaintance that the Chair has had with Mr. Tillotson, I think in view of the admission that has been made by the chairman of that group that the method of election of officers deserves investigation.

The Southeastern Group. I don't see Mr. Lanahan, the Chairman, or Mr. Legg. Mr. Brogden is a member of the Executive Committee. Mr. Brogden, have you something to say for the Southeastern Group?

## SOUTHEASTERN GROUP

*Mr. Brogden* (Strother, Brogden & Co., Baltimore): Why I haven't anything to say. That group is formed and is operating successfully. It has had several meetings and everything seems to be working very smoothly. It has done everything it has been asked to do. We recently had a boat trip which was a pleasure trip as well as a business trip. We had a business meeting on the boat. Everything is working successfully.

*The President:* I might say that the President had the pleasure of attending the organization meeting of the Southeastern Group and I think it was one of the best meetings of that kind that he has had a chance to attend during the year. The Southwestern Group, Mr. Prescott, Chairman.



## SOUTHWESTERN GROUP

*Mr. Prescott:* Mr. President, the Southwestern Group, almost to a man in its membership is enthusiastic for the group idea. I did have one or two distinguished claims of individual merit for the Southwestern Group which I expected to put forth, but my good friend, Bill Wade, has stolen some of my thunder. I did intend to say that we had more square miles in our group than any other group, but Bill Wade says his group has that distinction. I have not measured it up and I don't know. I also intended to explain that we had less per capita of investment bankers per square mile of group territory than any other group in the United States, but he makes that claim also. I have not counted them, and so I can't tell. I don't know how many he has in his group but it is a fact, probably of his group, and certainly of ours, that with a territory more than 1,000 miles long, and a comparatively limited membership that it is difficult to get our members actually together for meetings. It is no trouble at all to get those within easy reach of Kansas City, but a few of the outlying members have such great distances to travel that we cannot expect them to attend very many meetings. We have adopted one expedient that may be interesting and perhaps useful in Mr. Wade's group, although he says all is harmonious and successful out there, and that is we have in our by-laws a provision for referendum on all ordinary matters of business which come up so that we may take a vote on these questions without actually attending a meeting. We have found that quite useful a number of times in following out the referendum idea and it is successful. Looking at the matter from the standpoint of usefulness of the group idea to the national organization we have found the organization of these various committees useful when any matter of legislation was pending either in the states or in Washington. It is our purpose to have on our Legislative Committee and other important committees one member from each of the different states in our group. We have four and one-half states in our group. We try to distribute these men around where they will do the most good. Because of the peculiar situation of our group there is not so much to be gained I think in the group idea in developing interest in the national organization because the interest of all of our members

in that group in the national organization is very lively and keen, but I think there is a great deal to be developed through it from the standpoint of the national organization in affording the national committees and national officers the means with which to work over our wide territory and work effectively. In other words, we are organized to help and we expect to be of help all along the line. We had a meeting shortly after the Syndicate Committee made its first report and while there had been out in our territory more or less criticism of various things that had happened somewhat among our own members, the ideas suggested in the Syndicate Committee report were unanimously and enthusiastically supported. We appointed of course under the direction of the Board of Governors our Committee on Business Practice. I am glad to say that thus far there has been no occasion for the invocation of the powers of that committee but it stands ready in case of necessity. I think that the spread of the idea has really done a great deal of good. Perhaps it has done all that need be done for the present in our territory. We have had very little in the line of Blue Sky work to do. No new law in Kansas which was the originating state of the whole Blue Sky situation. In Missouri a new Blue Sky law has been suggested and possibly may come up at the next session. That matter has been largely handled by the Legislative Committee of the Mississippi Valley Group which happens to have a very efficient chairman. We stand ready, of course, through our Legislative Committee, to coöperate whenever the proper time arrives.

There is one matter which may be of interest to all that has arisen in our experience in reference to the financial side of our organization. We started with the idea of having an entrance fee to our group. We had a high opinion of the value of membership in it. We made them pay to get in, but the national organization has been electing quite a number of members lately, and after they have paid their dues to the national organization they hate to be touched up again for an entrance fee in the local organization. We are rather inclined to think as a result of that that the local group should not have an entrance fee, that membership in the national organization should as a matter of course make the member a member of the local group. Of course to get into the national organization a member must first have the endorsement

of the local group. I don't know what the experience of the other groups has been in that respect, but that is one conclusion that we have arrived at. [Applause.]

*The President:* Of the Western Pennsylvania Group, I know that Mr. McEldowney, the Chairman, is not here. I don't see Mr. Lyon, the Vice-Chairman. Mr. Crist, of the Mellon National Bank, the Secretary is here. Mr. Crist.

### WESTERN PENNSYLVANIA GROUP

*Mr. Crist* (Mellon National Bank, Pittsburgh): The Western Pennsylvania Group is pretty well organized and is in good shape financially, and as to members. The committees have not had very much work to do aside from the Blue Sky law which was threatened and in which it worked with the Eastern Pennsylvania Group to some good advantage. I understood this discussion was to be on the troubles of the groups, and I see that the troubles of all the groups are those which we experience, which is to get attendance at meetings. I had hoped that we would have some ideas of how to get the different members to these meetings. I believe if we can get the members out that the work which needs to be undertaken can be gone through with. Like the New England Group we had a get-together dinner early in the spring, at which we had the pleasure of the attendance of our President and Secretary. We had one hundred eighty investment bankers and bankers at this dinner. Since then we have had weekly luncheons on Mondays at which any member, associate or active, is at liberty to drop in of his own accord. In that way we get together every Monday a group of from ten to twenty members and in this way are getting better acquainted and are working in a business way that is doing us good. I am a great believer in the national Association and believe that the group idea is a great thing. If any of these group people know of any way to get the members out I would be very glad to hear from them. [Applause.]

*Mr. MacGregor:* Mr. President, I only want to say that the Western Pennsylvania Group has discussed Mr. Stevens' report very fully and we passed a series of resolutions at a group meeting recently, with reference to what we feel should be particularly stressed. I will read these or hand them to the Secretary if you wish.

*The President:* I think the convention would be very much interested in those resolutions, but may I suggest that you bring them in during the discussion of the next report to which I think they will be very pertinent.

*Mr. MacGregor:* I will do that.

*The President:* This brings us to the part of the program which calls for the report of the Syndicate Agreements Committee. Mr. Stevens, Chairman.

*Mr. Stevens (Illinois Trust & Savings Bank, Chicago):* Mr. President and Gentlemen, the report of the Committee on Syndicate Agreements has not yet been printed, for the reason that the committee consists of nineteen members who are geographically so situated that it is difficult to get frequent meetings, and the report could not be submitted to a meeting of the committee until a meeting was held here in New Orleans, in the last day or two. It is a matter of great regret to me, and I am sure will be a matter of great regret to you, because it necessitates my reading the report, which, however, is not as long as it might be. I think the Committee on Syndicate Agreements, feels that it shot its bolt last spring, to a very great extent in a preliminary report it prepared at the time for submission to the Board of Governors, and with no other thought was by them submitted to the membership of the Association. The report we have now is a formal report to be made to the Association, and I have seen fit under these circumstances to very briefly review some of the things which we took up in the former report. I will now read the report.

## REPORT OF COMMITTEE ON SYNDICATE AGREEMENTS

In January of this year, the President of the Investment Bankers Association of America completed his selection of members of the special Committee on Syndicate Agreements. This committee consisted of nineteen members, very carefully selected and representative of various sections of the country and various interests and viewpoints.

The committee approached its problems with a thorough realization of the difficulties involved and the impossibility of their solution by an academic plan or a model form of syndicate agreement. It entertained the hope, however, that it might be of some service in developing a better understanding of syndicate methods and performance of syndicate agreements and from time to time be able to make specific suggestions leading to gradual betterment of the situation.

Not long ago the usual financial syndicate was limited to a few partners in a joint account, who underwrote the securities and thereafter offered them to dealers at wholesale for distribution by them. The recent unparalleled development of the scope and character of the investment business has materially changed methods of distribution, and syndicates now often include hundreds of widely scattered dealers. The number of syndicate members is indeed frequently a source of great embarrassment to managers. While financing has generally been in larger amounts this increase in distribution has apparently more than kept pace with the supply. In 1920 about thirty representative nation-wide syndicates averaged approximately \$18,000,000 each. Probably the originating houses and a few of the great national distributing houses would absorb at least one-third of this amount in their retail distribution. This would leave an average of about \$25,000 each for the five hundred dealers (including many large houses) who are apt to be included in a syndicate of this size, and most of them are almost sure to be dissatisfied with the size of their participation. In justice to syndicate managers, attention should be called to these figures and also the relative participations in syndicates of lesser amounts.

This increase in the number of syndicate members has presented many difficulties, some of which are inherent. It is not an easy matter to conduct a partnership, with its individual responsibilities and interpretations, when that partnership includes five hundred or more partners, all over the country. We have, in fact, largely lost sight of the old partnership idea in syndication and it has become more nearly a method of wholesale distribution, this being particularly true in the so-called "sell out" syndicates. We do not always remember the two functions involved in syndicates; that of the underwriter, with the syndicate profit as compensation; and that of the seller, reimbursed by the selling commission; and that each member of a selling syndicate combines these two functions in his participation.

The Committee on Syndicate Agreements had no executive or judicial authority and could only suggest and recommend lines of action and methods for consideration by the Investment Bankers Association of America and by syndicate managers. Its consideration has been divided into two parts; first, as to improved

methods of syndication and understanding thereof (which could only be by suggestion), and second, as to performance of syndicate agreements when entered into (which it conceived to be a matter for definite action by the Association).

The committee believed that the standards of business practice set by the Association and its individual members were very high, but that the large number of new houses in the business and insufficient knowledge of syndicate matters on the part of juniors and salesmen, even in some of the older houses, had led to some misunderstandings and misconceptions of syndicate practice, which it might hope to correct in some measure by calling specific attention of the members thereto.

To this end, a Preliminary Report was prepared at a meeting of the committee in May, which was attended by fifteen out of the nineteen members. After a very thorough discussion, this preliminary report was submitted to the Board of Governors, at that time. This report suggested for the consideration of syndicate managers certain improvements and methods, designed to meet the most usual and fundamental difficulties of dealer members. These suggestions were, briefly, as follows:

First. The coöperation of the syndicate managers in the selling efforts of the members, after the syndicate itself had been sold out, particularly with respect to cleaning up unsold bonds in the hands of members by the continued efforts of other members who had sold out, and the allowance of the full selling commission thereon. It was believed that a considerable amount of the temptation to cut prices had resulted from the lack of this coöperation between members and their recognition of their partnership relation and that mutual benefit could be derived from all the bonds being properly distributed. We think it can be said that this method is being followed by some syndicate managers with excellent results.

Second. To meet the objection of lack of advance information and also coincident hours of release of syndicate offerings, occasioned by varied standards of time and delayed telegrams, a suggestion was made that, where possible, one day elapse between the date of offering of syndicate participations and the release thereof for public offering.

Third. Attention was called to the necessity that houses of issue recognize that when they themselves entered a selling syndicate, their rights and privileges as to time of offering or otherwise, are exactly the same as those of other members of the selling syndicate.

Fourth. The suggestion was made that syndicate managers eliminate from their lists those not regularly engaged in the distribution of securities and without proper responsibility.

In relation to the performance of syndicate agreements and in order that misunderstandings might be effectively adjusted without publicity and without resorting to the direct preference of charges by one member against another, the committee suggested the establishment of Committees on Business Practice in the National Association and in each local group, to handle these matters and to be in a position to investigate rumors and reports of alleged non-performance of agreements. This was done in the belief that these matters primarily affect the members of local groups and that they can be most effectively handled by them. The object of this recommendation was that it might act as a deterrent and preventive measure and that the members of the Association and their juniors would recognize

that a standard had been set and machinery established to maintain a high performance of the spirit, as well as the letter, of the agreement.

The committee urges that members use the machinery thus definitely established in its Preliminary Report to advise the local Committees on Business Practice of apparent deviation from proper performance by any member, which is the only way to make the plan effective.

The committee also recommended that syndicate managers eliminate from their future lists syndicate members whom they had reason to believe were not fully maintaining the standards of performance of syndicate agreements. The committee felt that members of this association had a right to ask that such dealers be not included as their partners in syndicates.

Believing that this Association stood for the highest type of ethics in the investment banking business, the committee felt it proper to specifically assert the canons of practice which the Association represented, and to condemn specifically any deviation therefrom, on the part of any dealers, and therefore recommended the adoption of a series of resolutions covering certain particular points which might be misunderstood.

This report was fully discussed in the Board of Governors' meeting, was adopted in its entirety and was ordered sent, over the President's signature, to the head of each member house, with the request that it be presented by him to his entire organization.

Parenthetically, it may be said that several hundred replies were received to the President's letter, which in almost every case commended the Association for the definite stand it had taken and promised hearty cooperation, with, on the other hand, no adverse comment. These letters further showed that meetings of member organizations had very generally been held with a thorough discussion of syndicate practice and it is believed that this dissemination of the Association's propaganda has been effective. Recent letters from the chairman of the local groups has further confirmed the committee's hope that this propaganda would have a deterrent effect on lax performance of agreements and that it has not been without material benefit.

With relation to other questions not touched on in the committee's preliminary report, an important consideration is the question of sponsorship for securities offered to the public. Under the frequent necessity of speedily marketing securities offered, individual members have had to place much reliance on the investigation and statements made by the originating houses, who are the real sponsors for the securities, and the presentation of the facts relative thereto. We believe that this responsibility should be assumed and acknowledged by them, and incidentally, this is one reason for the general public advertising of the securities over the name of the issuing houses only, and in some sense, is an answer to the criticism directed against that practice.

The issuance of bankers interim receipts has been the subject of considerable discussion and has formed a basis of resolutions by several of the groups, which have been referred to this committee. The committee is not in a position to take any action in this matter or do more than discuss it in a general way, at this time. It does believe that the indiscriminate issuance of bankers or dealers interims, excepting where under a strict trusteeship form, may constitute a menace to the

integrity of obligations delivered to customers. When a retail dealer, taking payment in advance of receipt of securities, gives his own personal receipt for money advanced by the customer in the nature of a receipted bill, rather than an interim receipt, so that the customer understands the transaction as a receipt for money, that is a matter of the confidence of the buyer in the individual dealer. However,

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## ERRATUM

*This matter is to follow in after the thirteenth line from the top on Page 339.*

In general, the committee believes that the practice of the issuance of interim receipts should be discouraged, excepting where absolutely necessary. It further believes that interim receipts when issued should represent obligations of the borrowing company, specifically set aside against such receipts, or by the cash segregated in such a manner as to be distinguished from the general assets of the bankers issuing the receipts. The customer to whom you have sold bonds has the right to believe that the interim receipt which you deliver to him is in effect the same thing and has equal security with the bond itself.

Your committee further believes that the first and fundamental step which should be taken and which dealers may require should be that the interim receipt state on its face in plain terms what constitutes the security therefor and in what manner it is held. The Committee also believes that the syndicate letter and syndicate agreement constituting the contract of purchase with the dealer should also plainly state these facts regarding any interim receipts which may be issued on delivery. This would serve to give the dealer a chance to exercise his discretion as to his acceptance of the type of interim receipts and the standing of the issuers thereof before signing his contract of purchase.

This does not solve the whole problem, but at least is a step directed towards any uncertainty or possible laxity in the general form of some interim receipts. The question is a broad one, and obviously cannot be covered by drawing a line as to the issuance of such receipts by incorporated trust companies as against private banking houses or other similar restrictions, and it involves legal questions and the factors of a strict trusteeship as against a moral obligation, the latter of which would not be enforceable in case of a receivership of the banking houses issuing such receipt.

*The President:* Gentlemen, I think the Association is to be congratulated upon the work that has really been accomplished this year, and when I say accomplished I think I am in a position to say that that is so, with reference to the work that has been done



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integrity of obligations delivered to customers. When a retail dealer, taking payment in advance of receipt of securities, gives his own personal receipt for money advanced by the customer in the nature of a receipted bill, rather than an interim receipt, so that the customer understands the transaction as a receipt for money, that is a matter of the confidence of the buyer in the individual dealer. However, when so-called bankers interims are issued for wide distribution as negotiable instruments and are supposed, by the buyer, to bear the same security as the permanent bonds for which they are exchangeable, it would be of serious consequence in case of any difficulty to the issuing house if the holders of such receipts would find themselves to be in the position of general creditors of the bankers, rather than holders of receipts against specified and designated securities held in trust. The obligation of the local dealer to his customer on delivering receipts of such character and under such circumstances might become a serious one.

The committee believes that a step in the right direction will be taken, however, if its recommendation is followed to the extent that there should be no misconception on the part of the dealer or his customer as to the nature of the receipt which he is taking in lieu of the permanent bond.

There are a number of other factors which are the subject of frequent discussions, such as the difficulty of dealers in getting information and returning their subscriptions, prior to the closing of books; delays on account of time standards and telegraph facilities; and the desire of the local dealers to be included in the local advertising. There is a further and much discussed question as to the advisability of so-called "sell out" syndicates. In this latter is involved, in a direct sense, the question of partnership relation between syndicate members. The committee is not prepared, at this time, to more than call attention to these particular questions.

In conclusion, the committee desires to emphasize again the advisability and necessity of keeping alive the interest in the faithful observance of the letter and spirit of the syndicate agreements. It respectfully suggests to the various Committees on Business Practice that they have a high duty to perform in this respect. It believes that the Association has declared itself in no uncertain terms and that these committees should see to it that the standard so announced should be maintained, and that in addition to lending their honorable names to an endorsement of these standards, these committees should be active in perpetuating them and taking steps, if necessary, to make it practically impossible for members of this Association, or for others engaged in this line of business, to do those things which would reflect upon the business as a whole and would have a tendency to destroy the confidence of the public, which is the greatest pride and the greatest asset of the investment banking business.

Respectfully submitted,  
EUGENE M. STEVENS, *Chairman.*

*The President:* Gentlemen, I think the Association is to be congratulated upon the work that has really been accomplished this year, and when I say accomplished I think I am in a position to say that that is so, with reference to the work that has been done

by the Syndicate Agreements Committee. If you could have seen, as I did, the instant response to the preliminary report of the committee, which was sent out following the May meeting of the Board of Governors, you would have had a much higher opinion of the investment banking business than you did have when you attended the discussion at the Boston meeting. While this report alludes to the preliminary report, it contains certain further suggestions, and particularly the suggestion with reference to the interim receipts, which ought to be thoroughly discussed. The floor is yours gentlemen, for that purpose, and we will be very glad to hear from any of you.

**Mr. Prescott:** I move that the report be adopted.

*(It was moved and seconded that the report be adopted and the report was unanimously adopted without discussion.)*

**The President:** Gentlemen, the next matter on the program is the report of the Committee on Constitution and By-Laws, Mr. Powers, Chairman.

**Mr. Powers:** Gentlemen, I take it that you have all read the proposed amendments to the Constitution and By-Laws which have been offered and approved by the Board of Governors.

**The President:** Gentlemen, in the program of the convention, which you all undoubtedly have, you will find on the next to the last page the proposed amendments to the constitution printed in full. In accordance with the constitution itself, these have been submitted to, and adopted by the Board of Governors, and have been published in accordance with the constitution and they are now presented for your consideration. Unless there is objection on the part of some member, of the convention, the Chairman of the Committee on the Constitution and By-Laws suggests the adoption of the proposed changes without a full reading of the same.

*(On motion, duly seconded the proposed changes in the Constitution and By-Laws were adopted without discussion)*

## AMENDMENTS TO THE CONSTITUTION

Articles VI, Section 1, IX, Section 1, and By-Laws 1 and 2 to read hereafter as follows:

### ARTICLE VI

*Section 1. Any member failing to pay the initial membership fee, or the regular annual dues for a period of three months after receiving due notice thereof shall be considered as having withdrawn from the Association, but may be reinstated upon application to the Secretary with the approval of the Chairman of the Membership Committee and upon payment of all dues in arrears to an amount not in excess of the initial membership fee provided by the By-Laws.*

### ARTICLE IX

*Section 1. Immediately upon organizing and as soon as practicable after each annual meeting, the President shall appoint the following committees, to consist of not less than five members, viz:*

*Committee on Membership*

*Committee on Legislation*

*Committee on Finances*

*Committee on Auditing*

*Committee on Program for Annual Meeting*

*Committee on Ethics and Business Practices*

*Committee on Publicity*

*Committee on Revision and Amendment of Constitution and By-Laws*

### BY-LAWS

*First: All members of the Association enrolled on or before the first day of January, 1913, shall be charter members. After that date there shall be a membership fee as hereinafter provided. The fiscal year of the Association shall commence on September first of each year, and the annual dues shall be due and payable on that date.*

*Second: The membership of this Association shall be divided into three classes, as follows:*

*Class "A" to consist of members doing a strictly local business. Such members shall not be entitled to register any branch offices without paying service charge. The initial membership fee of this class shall be \$150.00 and the regular annual dues shall be \$75.00.*

*Class "B" to consist of those members who may occasionally make original issues of securities and who do not restrict their operations to the immediate territory in which they are located. Such members shall be entitled to register two branch offices without service charge. The initial membership fee of this class shall be \$300.00 and the regular annual dues \$150.00.*

*Class "C" to consist of those members whose business extends to the more frequent distribution of original issues of securities and is of an international or country-wide character. Such members shall be entitled to register three branch offices without service charge. The initial membership fee of this class shall be \$500.00 and the regular annual dues shall be \$250.00.*

*All members shall be entitled to register branch offices over and above the number named for each class, but shall be required to pay a service charge of \$25.00 per annum for each branch office so registered.*

**The President:** Gentlemen, at this particular time several of the members of the Association who desire to have some discussion as to where the next convention shall be held want to present some facts to this Association. Mr. Tillotson.

**Mr. Tillotson:** Mr. Chairman and Gentlemen, Cleveland invites you to the 1922 convention. We have one of the greatest cities in the country, a city of the greatest diversified interests. You notice that I wear an imitation flower. You come to Cleveland and we will give you no imitations. [Laughter and applause.] We invite you, we don't beg of you, we don't compel you to come. We have ample hotel accommodations and Cleveland is within one night's ride of 80 per cent of the population of the United States and about 85 to 90 per cent of the members of this Association. I am going to ask the eloquent members of our delegation, Mr. Hayden and Mr. Otis, to second the invitation because they can do so very much better than I.

**Mr. Hayden:** Mr. President, unless Mr. Otis takes the floor immediately, he being the most eloquent, I will beat him to it if possible.

**Mr. Otis** (Otis & Co., Cleveland): Can't we both talk and let the convention decide?

**Mr. Hayden:** If that does not work I suggest we both sing. [Laughter.]

**The President:** I think if both of you were to talk at once it would be impossible for the convention to make a decision.

**Mr. Hayden:** Very seriously, Cleveland would be delighted to welcome the convention there. You all know that Cleveland has been interested in the Association from the beginning. You know we want you to come to see us. This morning at breakfast something more than an intimation that a city much farther away from the center of the world than our own, was made, that a great effort was being put forth to take the convention there. As I reflected

upon it it seemed to me that I saw some evidence that the convention was about to respond to a great moral impulse and go west. I hope that impulse will be resisted, because I feel it is that kind of an impulse that comes immediately after something which is not quite so moral. I am sure that if we had a cooling time that you would desire to stay in the workaday world where you can talk business. In Cleveland we are business folk. We live there and do business there, and we can claim nothing for the city except it is the home of people who are friendly to you. We cannot hold out an indecent and inglorious past of any kind. [Laughter.] We do not ask you to come there to leave your money so that we may have a glorious future. We expect to rely upon ourselves for that, and we are not saying very much about our past, but I do hope that if you do conclude to come to Cleveland you will feel you are coming to the house of your friends. [Applause.]

*Mr. Otis:* The suggestion of competition on my part was that Warren and I have always debated who was the better speaker. We have come to these conventions and have taken the same stateroom and both of us have always looked as though we enjoyed ourselves very much indeed. I will say that I could be the better listener of the two, but even that is contended.

A word about Cleveland, simply adding that the spirit of that part of the country is such that right at this time I believe it would be a very interesting and pleasant thing to be in this great industrial section of the country which is to be revamped to some extent in this period of expansion, and it would be very interesting and pleasant for all the men interested in financing this country because it is my belief that there is going to be a great deal of financing done in that section of the country. I believe it would be a good time at this time next year for you to come to Cleveland. You all know that you will be welcome. [Applause.]

*The President:* Gentlemen, if the eloquence of Cleveland is now exhausted there are other candidates having invitations to present. The floor is open to them. Mr. Witter. [Applause.]

*Mr. Witter:* Mr. President and Gentlemen, I have not the eloquence of our Cleveland delegation but I have an equally cordial invitation to extend. On behalf of California and the entire Pacific northwest we want to invite the 1922 convention to come

to California. Preliminary plans have already been made which include a special train from Chicago which will go to California, and by the way, the Southern Pacific has promised us adequate train and dining cars to make a very comfortable trip which will go by way of Lake Tahoe and the Yosemite and which will stop over for a short time and visit one of the hydro-electric plants and the irrigated sections surrounding Fresno, and will thence go to Los Angeles where they will be the guests of the Los Angeles members of the Investment Bankers Association of America, and from there will go to Del Monte where the convention proper will be held. The plan as proposed is to finish at San Francisco for the final dinner at the end of the convention. It was suggested by somebody that Del Monte was a place where there were a lot of canneries. Well, I want to assure you that Del Monte is not a cannery, and during the last two or three years an entirely different situation prevails. I want to say that the Hotel Del Monte has two very good golf courses and provides facilities for swimming and sailing and fishing and a few other things which I am sure will be appreciated by the visiting delegates. California has been intending to extend this invitation to the East to hold this convention in California for some time past. The war and other things have intervened and interfered with our plan, but we want now to extend a most hearty invitation for 1922. I may say in closing that we would like to have you come to California. We want to know you better. We want you to know us better. We want you to see something of the state while you are out there.

*The President:* Gentlemen, is there anything further to be said for California?

*Mr. Hallowell:* I would like to say that special train is to start from Boston, not Chicago. [Laughter.]

*The President:* The Secretary has several invitations.

*The Secretary:* We have invitations from Detroit, Washington, Colorado Springs, Merchants' Association of New York, and the Chamber of Commerce of Buffalo.

#### TELEGRAM

Representing thousands of business men in this city, members of this Association, the request is made that your organization give all possible encouragement and advice to its members that they travel at least one way

through Colorado on their proposed convention trip to Del Monte, California, next year. Thank you.

DENVER CIVIC AND COMMERCIAL ASSOCIATION. BY ARTHUR J. DODGE,  
*Business Manager.*

#### TELEGRAM

On behalf of commercial interests represented by this bureau we extend to the members of your honorable body a most cordial invitation to hold your nineteen twenty-two meeting in Detroit. Our hotel accommodations are ample and we will be pleased to make advance hotel and Auditorium reservations.

DETROIT CONVENTION AND TOURISTS BUREAU.

#### TELEGRAM

This organization, representing the business interests of the state and city, wishes you to extend the Investment Bankers Association of America sincere invitation to visit Salt Lake City enroute to their convention next year, which is to be held in California. A trip to the west without visiting Salt Lake City, the center of scenic America, is incomplete.

COMMERCIAL CLUB, F. C. SCHRAMM, *President.*

#### TELEGRAM

Greetings! Colorado Springs extends most cordial invitation to the members of the Investment Bankers Association of America to visit the Pikes Peak Region either going to or returning from the 1922 convention in Del Monte, California, and view the scenic attractions for which Colorado is world famed.

E. E. JACKSON, *Secretary.*

#### TELEGRAM

I have just been advised that the Investment Bankers Association of America is scheduled to meet in New Orleans this Fall, and it has occurred to me now that hotel conditions are normal, it would be of interest to your members to hold their next meeting in Washington.

It is acknowledged by all that the Nation's Capital has more points of general interest than any other city in this country, and as the seat of government, offers opportunities of research and contact with department and bureau heads impossible to obtain anywhere else.

Should this suggestion meet with your approval, I desire to place the facilities of the New Ebbitt, and my personal efforts, at your disposal, in securing suitable accommodations and meeting rooms.

Very truly yours,

A. GUMPERT, *Manager.*

#### LETTER

The Cleveland members of the Investment Bankers Association of America cordially invite the Association to hold its annual meeting for 1922 in their home city. This invitation issues from a real desire to have the Association



meet in Cleveland and there receive a hearty welcome. The Cleveland members venture to hope that this will be deemed abundant assurance of the eligibility of their city.

Very truly yours,

E. G. TILLOTSON, *Chairman.*

Northern Ohio Group—I. B. A. of A.

STATE OF UTAH, EXECUTIVE OFFICE

SALT LAKE CITY

October 27, 1921.

Learning that the Investment Bankers Association of America plan to hold their next annual convention in Del Monte, California, I wish to extend, through you, an invitation to them to arrange their schedule so as to permit of a day stop over in Utah enroute.

If they appreciate that Salt Lake City is "THE CENTER OF SCENIC AMERICA," I feel confident that they will avail themselves of this rare opportunity to see this section of the west.

As the Chief Executive of the state I am honored in having the privilege to extend this invitation on behalf of the people I represent.

True western hospitality will be shown the visitors, and you will support me, I believe, in the statement that the attractions offered by our state well merit their acceptance.

Sincerely yours,

CHAS. R. MABEY, *Governor.*

*Mr. Paine* (Union Trust Co. of Spokane): From the Pacific Northwest Group I want to suggest that we have a great country in the Pacific Northwest. We would like to have you travel by way of Portland, Seattle and Spokane. Those of us who come from the far west are rather surprised to find the few members who have been in the west, who have been west of the Mississippi River. We would like to have you come out and see our western country, not the southwest alone, but also the west. If this train could be made up and arranged the way Mr. Witter suggests it would permit the members of this Association to select their own routes, and give them an opportunity to spend a day or two in the parks, Glacier Park and Yellowstone Park. I am sure that you would find those days very interesting and very instructive, and at the same time you would be able to know the country better and to know your western friends better. We would like that very much. [Applause.]

*The President:* Are there any other invitations?

*Mr. Wright* (Bankers Trust Company, Denver): The people of Denver prevailed on the American Bankers Association in connection with their recent convention at San Francisco and Los Angeles to stop over in Denver for one day. It is a rather long trip to California from the east and I think that those who come from New York and the east would welcome a day off in Denver. We have some very excellent golf courses there. We would like very much to have you and we extend you a cordial invitation to stay over one day en route, if it can be so arranged.

*Mr. Otis*: I wish to say while Cleveland is nearest to every place in the world and anywhere else, still you can get there by any other route. If you want to go to California first or Texas and come back that way we would be just as glad to have you.

*The President*: Well, gentlemen, I think that completes that part of our program. Under our constitution it is not in the power of the convention at the present time to settle the location, but it is to be put up to the next meeting of the Board of Governors which will probably take place in January.

The next business on the program is the Report of the Board of Governors through its Nominating Committee, of which Mr. Hodges is Chairman.

*Mr. Hodges*: Mr. President and Members: For the Board of Governors we beg to report the following nominations of candidates for the officers of the Association for the year 1921 and 1922:

President: Howard F. Beebe, Harris, Forbes & Company, New York.

Vice-Presidents: Thomas S. Gates, Drexel & Company, Philadelphia. N. Penrose Hallowell, Lee, Higginson & Company, Boston. R. S. Hecht, Hibernia Securities Co., Inc., New Orleans. John A. Prescott, Prescott & Snider, Kansas City, Mo. Eugene M. Stevens, Illinois Trust & Savings Bank, Chicago.

Secretary: Frederick R. Fenton, Fenton, Davis & Boyle, Chicago.

Treasurer: McPherson Browning, Detroit Trust Company, Detroit.

Governors (full 3-year term): Joseph A. Rushton, Babcock, Rushton & Co., Chicago. Heman Gifford, Blair & Company, Inc., Chicago. J. R. Edwards, Fifth-Third National Bank, Cincinnati. Morris F. Fox, Morris F. Fox & Co., Milwaukee. J. W. Hornor,

Jr., Dillon, Read & Co., New York. John W. Prentiss, Hornblower & Weeks, New York. Thomas N. Dysart, William R. Compton Co., St. Louis. Thomas B. Gannett, Jr., Parkinson & Burr, Boston.

Governors (to fill unexpired terms ending 1922): Ray Morris, Brown Brothers & Co., New York. Julian H. Harris, Harris, Small & Lawson, Detroit. John W. MacGregor, Glover & MacGregor, Pittsburgh.

*Mr. Hodges* (Continuing): Gentlemen, this completes the full list of candidates for the vacancies now to occur. In view of the fact that there is no opposition named and none has been or can be filed under our constitution at the present time, I move that the rules be suspended and that the President cast one ballot for the candidates as read.

*Mr. Edwards*: I second the motion.

*The President*: Gentlemen, you have heard the motion that has been made and seconded, providing for the suspension of the rules and that the President cast one ballot for the election of these officers. Is there any discussion? If not, all those in favor of the motion will say "Aye." Those opposed "No." The motion is carried and the President has cast the ballot in accordance therewith and the new officers are elected.

Gentlemen, I am going to extend the prerogatives of the Chair, even if I am out of order at the present time, just for a moment. I want to say, and I say it with the deepest feeling, that I never have enjoyed a year of work in this Association as I have enjoyed that of the past year. It has been my great pleasure to be on the Board of Governors for a term and I have served in another office and I have served as President. There is one feeling of satisfaction that remains with me, gentlemen, and that is that I have another year, under the provisions of the constitution, on your Board. [Applause.] It will be with a feeling of great regret, as I know it has been on the part of other officers and members of the Board of Governors when their terms have expired, that I shall leave the active service of the Association. I want to say, however, that I know of no one who could have been chosen for the office of President of this Association, under whom I think the Association will have a finer year and will progress better, than under my good friend and associate, Howard F. Beebe.

*The President-Elect:* Gentlemen, I feel very much constrained to follow the example of our Secretary and hand you a printed speech, in view of the very decided hit which that procedure made on his part. But, I understand that is hardly permissible, under the circumstances, so I have compromised on a middle course and will burden you with just as short a one as the circumstances seem to permit of. Also, by virtue of brevity and accuracy I will take the liberty of reading it.

## ADDRESS OF PRESIDENT-ELECT

HOWARD F. BEEBE

Harris, Forbes & Co., New York

Fellow Members and Friends: While no statement from me is necessary attesting my appreciation of the honor you have seen fit to do me in selecting me to act as leader in guiding the affairs and activities of our Association for the coming year, I feel that you should know that in accepting the nomination for the presidency I arranged for the taking from my own business the required time and attention necessary to the accomplishment of the duties of the office.

The policies and standards set by previous administrations have been proved without doubt to be wise ones, and I have no thought of deviating from them except after the most careful consideration by your Board of Governors. I should be brash indeed if I thought that through my guidance we could surpass the record of achievement set in previous years, but I do hope and believe that with the help of our members your executive body will be able to continue and extend its scope of usefulness to our members and the investing public.

Up to the present time the majority of our sectional groups have not been enough organized to function to the best advantage, but I feel sure that from now on they can be depended upon to greatly lighten the burden of work of the chairmen of our more active committees. Our members have always been most liberal with their time and efforts when called upon in the interests of our Association, and I am sure this will continue to be the case.

While the past year has been one of trials and tribulations for many lines of business in conforming their affairs to the changing conditions, I believe we can safely consider that conditions are improving and will continue to improve, for business as a whole. Our own business has been more free from anxieties than for a number of years, and recent developments certainly indicate definite and continued improvement.

Taxation, particularly that by the Federal authorities, continues to menace business and to retard the return to a normal state of affairs. Methods and degrees of taxation, justifiable only because of and during immediate war conditions, still are with us.

The country has reason to feel impatient at any delay in the correction of this all-important matter, and to insist upon the speedy passage of legislation to effect the desired changes. A makeshift revenue measure, such as is now in process of construction, is not satisfactory and should be condemned. Those men in the Congress who use their position for the furtherance of selfish, political ends, and I refer to those of both parties, to the detriment of their country, are traitors to the cause of good government and should be so sternly rebuked from home that they will immediately change their tactics. We all of us have a duty in this matter, and should not delay in attending to it.

The statement is often heard that "We have too many laws." The intention is usually to apply the criticism to the situation existing in a single state of our Union. As a majority of our members conduct their business over an extended territory it is to our interest to have new legislation confined to as few laws as possible. Our group organizations can be of great help in moulding such laws and directing them in the right channels. Objectionable legislation is difficult to get rid of or to have annulled and it is therefore advisable to get acquainted with it at its inception.

Situations have arisen and will continue to appear which require coöperation with others whose point of view and contact are not the same as our own. In the interests of harmony we should, as heretofore, meet such situations in a spirit of compromise. By this I would not be understood to advocate a weakening of position on those matters we deem of fundamental importance, for present relief from burdens and expense would be dearly purchased if the cost was a future untenable position.

We enter upon our future work, a strong, virile organization, in numbers larger than ever, and with influence of the best and most far-reaching. [Enthusiastic applause.]

*Mr. Thompson* (Crane, Parris & Co., Washington, D. C.): Mr. President, may I ask the indulgence of the convention for just a moment. I have been requested by a number of members of the convention here assembled to say a word on behalf of one who has just stepped down from the highest office within our power to bestow. I fail to have command of the words that I would like to use, but in my feeble way I want to say that Roy C. Osgood [applause] has represented the Investment Bankers

Association of America with the greatest of credit, not to himself alone but to this Association, in every particular in Washington. I say to you gentlemen that when you come to Washington to discuss the affairs of this Association with any of the officers of either the past or present administration you get this very kind suggestion, "Oh, yes, I have had a talk with your Mr. Osgood about this matter." Mr. Osgood has been in Washington more, perhaps, than any other President of the Association. He has been there as Chairman of the Taxation Committee; he has been there as Vice-President and he has been there as President. He has given a great deal of time to the work of this Association in Washington and I know of it, perhaps, better than many others. I feel that if it were proper we should go on record with a resolution of appreciation of his services, but I know that would be establishing a precedent. We, of course, have our old war horses—many of whom did very good work—such as our good friends Hayden and Hodges—and I know there have also been presidents of the Association before them who have done good work, but to Mr. Osgood I say that the administration in Washington, both past and present, has looked upon him and has taken counsel with him and has heeded his advice and suggestions in many instances, and I say to you, gentlemen, that the foundation which he has laid for the principles of this Association with the national Government will reap untold benefits to us in the future. [Applause.]

Mr. President and Gentlemen, we have been most graciously entertained while in New Orleans, and I think perhaps I can say without contradiction that the New Orleans group have surpassed anything that we have ever had. [Great applause.] We are most grateful I am sure to Mr. Hecht and the other members in New Orleans, and we are also very grateful for the assistance which has been rendered to Mr. Hecht and his committee. I therefore offer the following resolution:

*Resolved:* That the Tenth Annual Convention of the Investment Bankers Association of America hereby expresses to the members of the New Orleans Group of the Investment Bankers Association of America, the New Orleans Clearing House Association, the members of the General Committee, composed of the President of the New Orleans banking institutions, the members of the sub-committees and the ladies assisting, its deep appreciation for their many gracious courtesies and unbounded hospitality extended during this convention.

The Secretary of the Association is directed to convey a copy of this Resolution to the New Orleans Clearing House Association.

(A motion duly seconded was unanimously passed and the resolution adopted.)

*Mr. Hecht* (Hibernia Securities Co. Inc., New Orleans): On behalf of my associates, the presidents of the New Orleans banks, and the members of the stock exchange and all of our sub-committees, I want to thank you very much for the expressions of appreciation which we have just heard. I want to say that it has been a genuine pleasure to us to have you here, and we hope that you will come again.

*The President:* If there is no further business a motion to adjourn is in order.

*Mr. Thompson:* I move that we adjourn.

(The motion was seconded and carried.)





## **APPENDIX**



**Constitution *and* By-Laws**  
*of the*  
**Investment Bankers Association**  
*of America*



# Constitution *and* By-Laws *of the* Investment Bankers Association *of America*

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## PREAMBLE

In order to promote the general welfare and influence of investment banks, or bankers, likewise banking institutions operating bond departments, and to secure uniformity of action, both in legislation and methods of handling securities together with the practical benefits to be derived from personal acquaintance, and for the discussion of subjects of importance to the banking and commercial interests of the country which affect the investing public, and for protection against loss by crime, or through willful and irresponsible dealers in investment securities, and to surround the offerings of its members with greater safeguards, we submit the following Constitution and By-Laws for The Investment Bankers Association of America.

## CONSTITUTION

### ARTICLE I

*Section 1.* This Association shall be entitled:

“THE INVESTMENT BANKERS ASSOCIATION OF AMERICA.”

### ARTICLE II

*Section 1.* Any national or state bank, trust company, private banker, banking firm, or corporation, in good standing, having a paid-in capital of \$50,000 or more, and which makes a practice of buying bonds or investment stocks, and publicly offers the same,

as dealers therein, shall be eligible to membership in this Association, and upon its election to membership, and the payment of annual dues, and membership fee, as hereinafter provided by the By-Laws, shall be entitled to one delegate to the annual meetings of the Association. Any member may be expelled from this Association upon a vote of two-thirds of the Board of Governors.

*Section 2.* Branch offices, registered in accordance with the By-Laws of the Association, and not incorporated, may send one delegate to the meetings of the Association and shall be entitled to all the privileges and benefits of the Association except that no member of the Association shall be entitled to more than one vote. Branch offices operating as a separate corporation shall pay the regular dues, and enjoy the privileges of full membership. Branch offices not registered in accordance with the By-Laws shall not be permitted to send a delegate to the meetings of the Association or to hold any office, either on a committee, or as an officer or as a member of the Board of Governors of the Association.

*Section 3.* Each delegate representing a member shall be an officer or director or trustee of the institution represented, or a manager of the bond or investment department, or a member of a banking firm, or a private banker, or the manager of the investment department thereof, or a manager of a branch office.

*Section 4.* Delegates shall vote in person, and no delegate shall be entitled to more than one vote.

*Section 5.* All votes shall be viva voce, unless otherwise ordered, except as hereinafter provided; any delegate may demand a division of the house.

### ARTICLE III

*Section 1.* The administration of the affairs of this Association shall be vested in a President, five Vice-Presidents, a Secretary, a Treasurer and a Board of Governors of twenty-four members, eight of whom shall hold office for one year, eight for two years and eight for three years, and thereafter, eight shall be chosen at each annual meeting for a period of three years, or until his successor is chosen or appointed, and the first President of this Association, at the expiration of his term of office, shall become and remain a member of the Board of Governors, with full voting power, so long as he shall continue in the bond business; and the

retiring President of the Association shall become an ex-officio member of the Board of Governors for one year immediately following his term of office, but no member of the Board of Governors having served a full term of three years shall be eligible for re-election until after the expiration of one year, except as above provided.

*Section 2.* The President shall preside at all meetings of the Association and of the Board of Governors, countersign all certificates of membership, and may appoint such committees from time to time as may be required for the conduct of the business.

*Section 3.* In the absence of the President, the Vice-Presidents shall perform the duties of the office of President in the order in which they are chosen.

*Section 4.* The Secretary's office shall be the principal place of business of this Association. The Secretary shall conduct all general correspondence of the Association and shall have charge of all files and records and shall keep the general books of account and shall be the custodian of the Seal of the Association. The Secretary shall keep an accurate list of the members of this Association, and shall notify all new members when elected. He shall collect all dues and other moneys due the Association, and shall immediately turn over all moneys collected to the Treasurer.

The Secretary shall keep a record of the proceedings of all meetings of the Association, and the Board of Governors, and perform such other duties as may from time to time be required by the President or the Board of Governors.

*Section 5.* The Treasurer shall receive and receipt for all moneys collected by the Association or its officers, and shall disburse the same upon the presentation of proper voucher checks issued and signed by the Secretary or Assistant Secretary and countersigned by the President or Vice-President. He shall keep a correct record of and account for all moneys coming into his hands, and of all disbursements, and shall make a report thereof to the annual meeting of the Association, and to the Board of Governors when and as often as they may require. He shall give bond to the Association in such sum as the Board of Governors may require. He shall deposit the funds of the Association in his custody in some national or state bank, or trust company, subject to the approval of the Board of Governors.



*Section 6.* The members of the Board of Governors shall, as soon as may be after their election, divide themselves by ballot into three classes of equal number, designated as First, Second and Third Classes, of which the First Class shall remain in office one year, the Second Class two years, and the Third Class three years, and on each annual election members of the Board of Governors shall be elected for a term of three years to fill the vacancies of the retiring class, subject to the provisions of Section 1 of this Article.

*Section 7.* The Board of Governors shall determine the time and place of holding its meetings, and of the regular annual meeting of the Association, and shall have power to fill all vacancies until the next annual meeting, and to adopt all necessary rules for governing the business of this Association, and may name such appointive offices as may be necessary.

*Section 8.* The Board of Governors may be called together at any time by the Secretary, at the request of five members thereof, or by the President, and shall be vested with full power to transact such business as may have been authorized by this Association, and shall make annual appropriation for carrying on the work of the committees. Any eight members of the Board shall constitute a quorum.

#### ARTICLE IV

*Section 1.* The expenses of the Board of Governors of the Association, as well as of all officers and committees, in carrying out the business to be done by them, shall be provided for by annual dues of the members of the Association, provided, however, that the Board of Governors or any committee shall have no authority to incur or contract, on behalf of this Association, any liability whatever beyond the amount of the annual dues and moneys actually collected.

#### ARTICLE V

*Section 1.* Resolutions or subjects for discussion (excepting those referring to point of order or matters of courtesy) must be filed with the Secretary at least ten days before the Annual Convention, and submitted to the Board of Governors at its regular meeting preceding the Convention, but any person desiring to submit any resolution or business in open convention may do so upon a majority vote of the delegates present.

## ARTICLE VI

*Section 1.* Any member failing to pay the initial membership fee, or the regular annual dues for a period of three months after receiving due notice thereof shall be considered as having withdrawn from the Association, but may be reinstated upon application to the Secretary with the approval of the Chairman of the Membership Committee and upon payment of all dues in arrears to an amount not in excess of the initial membership fee provided by the By-Laws.

## ARTICLE VII

*Section 1.* The fiscal year of this Association shall commence September first and end August thirty-first, and the Association shall meet, and the annual meeting shall be held within ninety days thereafter for the election of officers and members of the Board of Governors. The Association may also be called together at any time by order of the Board of Governors.

*Section 2.* At all annual meetings the members of the Association may be represented by one delegate each. At these annual meetings there shall be presented for discussion such topics as will be of interest to the members, together with the reports of the officers and various standing committees, and such addresses as the Board of Governors may approve.

*Section 3.* The Board of Governors in each year shall select the regular ticket of officers to be voted on at the next annual meeting, written notice whereof shall be given to each member of the Association at least thirty days prior to such election. No other nominations shall be voted on unless in writing, signed by at least ten members of the Association and filed with the Secretary's office at least ten days prior to such election. Written notice of such further nominations shall be given by the Secretary prior to such annual meeting. As soon as such further nominations are filed it shall be the duty of the Secretary to give prompt notice in writing to each member of the Association.

## ARTICLE VIII

*Section 1.* This Constitution may be amended at the first annual meeting by resolution submitted in writing at one session and passed at a subsequent session, but thereafter this Constitution

can only be amended by written notice served on the Secretary at least thirty days before any annual meeting, and then submitted in writing to the next annual Convention of this Association, and passed by a two-thirds vote of all delegates present.

#### ARTICLE IX

*Section 1.* Immediately upon organizing and as soon as practicable after each annual meeting, the President shall appoint the following committees, to consist of not less than five members, viz:

Committee on Membership.

Committee on Legislation.

Committee on Finance.

Committee on Auditing.

Committee on Program for Annual Meeting.

Committee on Ethics and Business Practice.

Committee on Publicity.

Committee on Revision and Amendment of Constitution and By-Laws.

#### BY-LAWS

*First:* All members of the Association enrolled on or before the the first day of January 1913, shall be charter members. After that date there shall be a membership fee as hereinafter provided. The fiscal year of the Association shall commence on September first of each year, and the annual dues shall be due and payable on that date.

*Second:* The membership of this Association shall be divided into three classes, as follows:

Class "A" to consist of members doing a strictly local business. Such members shall not be entitled to register any branch offices without paying service charge. The initial membership fee of this Class shall be \$150.00 and the regular annual dues shall be \$75.00.

Class "B" to consist of those members who may occasionally make original issues of securities and who do not restrict their operations to the immediate territory in which they are located. Such members shall be entitled to register two branch offices without service charge. The initial membership fee of this Class shall be \$300.00 and the regular annual dues \$150.00.

Class "C" to consist of those members whose business extends to the more frequent distribution of original issues of securities

and is of an international or country wide character. Such members shall be entitled to register three branch offices without service charge. The initial membership fee of this Class shall be \$500.00 and the regular annual dues shall be \$250.00.

All members shall be entitled to register branch offices over and above the number named for each class, but shall be required to pay a service charge of \$25.00 per annum for each branch office so registered.

Each member of the Association shall designate to the Secretary the class in which he desires to be included, but the Board of Governors or a committee thereof, in its sole discretion, shall have the right to reclassify any member.

The Secretary of the Association shall keep a record showing the classification of each member, and a record showing registered branch offices, but such records shall be confidential as to the classification and shall not be published by the Association.

Branch offices of members employing separate capital specifically set aside therefor shall be considered as main offices.

*Third:* The Officers, Board of Governors and Committees chosen or appointed at the first meeting of this Association shall hold office until the annual meeting of this Association in 1913.

*Fourth:* All applications for membership shall be approved by the Membership Committee and certified to the Secretary, who shall notify the applicants of their election. Upon receipt of the membership fee and of the first year's annual dues they shall be enrolled as regular members and a certificate of membership shall be issued, signed by the Secretary and the President, or by one of the Vice-Presidents.

*Fifth:* No member of this Association shall use the name of this Association on letterheads or other advertising matter on penalty of a forfeiture of his membership, upon evidence being furnished to the satisfaction of the Membership Committee.

*Sixth:* The main office of this Association shall be determined by the Board of Governors and shall be located in some one of the principal cities: New York, Chicago, Boston, Philadelphia, Pittsburgh, Buffalo, Baltimore, Cleveland, Cincinnati, Toledo, Detroit, St. Louis, Indianapolis, Minneapolis, Milwaukee, Kansas City or Denver.

*Seventh:* Roberts' Rules of Order shall govern the deliberations of the Association.

*Eighth:* These By-Laws may be repealed or amended at any meeting of the Association upon a majority vote of all delegates present.

## GROUP CONSTITUTION

### RESOLUTIONS ADOPTED BY BOARD OF GOVERNORS

**WHEREAS:** *It is desired on the one hand that the individual members of the Investment Bankers Association of America be kept in closer touch with the policies and work carried on by the National Association, and on the other hand that the individual members furnish more efficient local machinery to carry on local work for the National Association, and*

**WHEREAS:** *It is desired to make more effective the aim of the National Association to promote the general welfare and influence of investment banks, or bankers, likewise banking institutions operating bond departments, and to secure uniformity of action, both in legislation and methods of handling securities, together with the practical benefits to be derived from personal acquaintance, and for the discussion of subjects of importance to the banking and commercial interests of the country which affect the investing public and for protection against loss by crime, or through willful and irresponsible dealers in investment securities, and to surround the offerings of its members with greater safeguards, now therefore,*

**BE IT RESOLVED:** *By the Board of Governors of the Investment Bankers Association of America that local groups be organized among the membership of this Association as authorized by the annual convention of the I. B. A. of A. held in October, 1919.*

**FURTHER,** *That the attached constitution be authorized as the basis of this group organization, and*

**FURTHER,** *That copies of this constitution and of the outline attached hereto, naming the groups and suggesting their membership, be printed and distributed to each member of this Association.*

## CONSTITUTION

### ARTICLE I

**Section 1.** This Association shall be entitled:

**"THE (—) GROUP OF THE INVESTMENT BANKERS ASSOCIATION OF AMERICA."**

### ARTICLE II

**Section 1.** There shall be two classes of memberships; (a) active membership, (b) associate membership.

**Section 2.** Active membership in this group shall be pre-determined by membership in the Investment Bankers Association of America. Branch houses of members of the I. B. A. of A. within the geographical limits occupied by the Group, which are represented by one or more resident partners shall be entitled to active voting membership. Branch houses not represented by a

resident partner may be permitted to vote, but only under rules and restrictive By-Laws as may be prescribed by the Group.

*Section 3.* The associate membership may be composed of employes of active members, each active member nominating such of its employes as it desires. The associate members shall have no right to vote or to hold office, except as members of Committees appointed by the Chairman.

*Section 4.* Active members shall vote in person and such vote must be cast by a member of the firm, if a partnership, or by an executive officer or manager of the bond department, if a corporation. No member shall be entitled to vote by proxy, or to more than one vote.

### ARTICLE III

*Section 1.* The administration of the affairs of this Group shall be vested in a Chairman, Vice-Chairman, a Secretary-Treasurer; and an Executive Committee, including these three officers and not less than two other active members. One member of the Executive Committee shall be a local member of the Board of Governors of the Investment Bankers Association of America, if there be one, and all of the officers and members of the Executive Committee shall be elected at the Annual Meeting and shall hold office for one year or until their successors are elected. The Executive Committee shall have power to fill any vacancies.

*Section 2.* The Chairman shall preside at all meetings of the Group. Immediately upon assuming office he shall appoint the following Committees, to consist of one or more members: a Committee on Membership, Committee on Legislation, Committee on Fraudulent Advertising, Committee on Ethics and Business Practice, Committee on Meetings and Entertainments, and may appoint such additional committees from time to time as may be required for the proper conduct of the Group's activities.

*Section 3.* In the absence of the Chairman, the Vice-Chairman shall perform the duties of the office of Chairman.

*Section 4.* The Secretary-Treasurer shall keep complete records of the proceedings of all meetings of the Group. He shall also conduct all general correspondence of the Group and shall have charge of all files and records, and shall keep the general books of account. He shall receive and receipt for all moneys collected by the Group and shall disburse the same upon direction of the Execu-

tive Committee and shall account for the same to the Group at its Annual Meeting. He shall furnish copies of all records of the Group to the Secretary of the I. B. A. of A. whenever requested by him.

*Section 5.* Regular meetings of the Group shall be held periodically at such times as the Group may provide, but not less than once every three months. Special meetings may be called at any time upon notice given by two of the members of the Executive Committee, or by notice given by one-third of the Active Membership. The notice given of each meeting shall specify whether other than active members solely shall be permitted to attend.

The first meeting subsequent to the Annual Convention of the I. B. A. of A. shall be deemed to be the Annual Meeting of this Group.

#### ARTICLE IV

*Section 1.* The expenses of the Group in carrying out the business to be done by them shall be provided for in such a manner as the Executive Committee may decide.

#### ARTICLE V

*Section 1.* This Constitution may be amended at any regular meeting of the Group provided

- (a) the proposed amendment shall have first been submitted to and approved by the Board of Governors of the I. B. A. of A. at a regular meeting of said Board;
- (b) written notice of such amendment shall have been submitted to the Active Membership of the Group at least 30 days in advance of such meeting;
- (c) such amendment is passed by two-thirds of the Active Members.

*Section 2.* Whenever necessary, this Constitution shall be so amended that its provisions shall not conflict with the Constitution and By-Laws of the I. B. A. of A.

*Section 3.* In case of any disagreement between the I. B. A. of A. and the Group the decision of the Board of Governors of the I. B. A. of A. shall be final and binding upon the Group.

#### ARTICLE VI

*Section 1.* The group may adopt By-Laws not inconsistent with this Constitution.





**Officers on Executive Committees  
*of the* Groups**



# Officers on Executive Committees of the Groups

## CALIFORNIA GROUP

B. H. DIBBLEE, <i>Chairman</i>	E. H. Rollins & Sons	San Francisco
CYRUS PEIRCE, <i>Vice-Chairman</i>	Cyrus Peirce & Co.	San Francisco
C. A. MILLER, <i>Secretary-Treasurer</i>	Girvin & Miller, Inc.	San Francisco
DEAN G. WITTER	Blyth, Witter & Co.	San Francisco
R. H. MOULTON	R. H. Moulton & Co.	Los Angeles
G. C. STEPHENS	Stephens & Company	San Francisco
J. E. JARDINE	William R. Staats Co.	Los Angeles
H. S. BOONE	National City Company	San Francisco
LEROY T. RYONE	Ryone & Co.	San Francisco
ROBERT E. HUNTER	Hunter, Dulin & Co.	Los Angeles
J. W. EDMINSON	William R. Staats Co.	San Francisco

## CENTRAL STATES GROUP

EUGENE M. STEVENS, <i>Chairman</i>	Illinois Trust & Savings Bank	Chicago
FRANK MCNAIR, <i>Vice-Chairman</i>	Harris Trust & Savings Bank	Chicago
JOHN A. STEVENSON, <i>Secretary-Treasurer</i>	Stevenson Bros. & Perry, Inc.	Chicago
J. H. DAGGETT	Marshall & Ilsley Bank	Milwaukee
W. T. BACON	Northern Trust Company	Chicago
C. W. SILLS	Halsey, Stuart & Co., Inc.	Chicago

G. C. FOREY, JR.	Fletcher American Company	Indianapolis
PHILIP R. CLARKE	Federal Securities Corporation	Chicago
JOHN J. ENGLISH	William R. Compton Company	Chicago

## EASTERN PENNSYLVANIA GROUP

E. T. STOTSBURY, <i>Honorary Chairman</i>	Drexel & Co.	Philadelphia
THOMAS S. GATES, <i>Chairman</i>	Drexel & Co.	Philadelphia
HOWARD F. HANSELL, JR., <i>Vice-Chairman</i>	Redmond & Co.	Philadelphia
RICHARD E. NORTON, <i>Vice-Chairman</i>	W. H. Newbold's Son & Co.	Philadelphia
CHARLES P. STOKES, <i>Secretary-Treasurer</i>	Janney & Co.	Philadelphia
J. CROSSY BROWN	Brown Brothers & Co.	Philadelphia
ROBERT K. CASSATT	Cassatt & Co.	Philadelphia
CLARENCE L. HARPER	Harper & Turner	Philadelphia
JOHN J. HENDERSON	Newburger, Henderson & Loeb	Philadelphia
CASPAR W. MORRIS	Elkins, Morris & Co.	Philadelphia
ALBERT L. SMITH	Edward B. Smith & Co.	Philadelphia
T. DUNCAN WHELEN	Townsend Whelen & Co.	Philadelphia

## MICHIGAN GROUP

## EXECUTIVE COMMITTEE

JULIAN H. HARRIS, <i>Chairman</i>	Harris, Small & Lawson	Detroit
W. G. LERCHEN, <i>Vice-Chairman</i>	Watling, Lerchen & Co.	Detroit
HOWARD BENNETT, <i>Secretary-Treasurer</i>	Nicol, Ford & Co., Inc.	Detroit
C. H. MOORE	Union Trust Company	Detroit
MCPHERSON BROWNING	Detroit Trust Company	Detroit

J. E. J. KEANE . . . . .	Detroit
Keane, Higbie & Co.	
D. D. DOUGLAS . . . . .	Detroit
First National Company	
WARREN H. SNOW . . . . .	Grand Rapids
Howe, Snow, Corrigan & Bertles	
E. F. PERKINS . . . . .	Grand Rapids
Perkins, Everett & Geistert	

## MINNESOTA GROUP

L. E. WAKENFIELD, <i>Chairman</i> . . . . .	Minneapolis
Wells-Dickey Co.	
C. O. KALMAN, <i>Vice-Chairman</i> . . . . .	St. Paul
Kalman, Wood & Co.	
E. J. KENNEDY, <i>Secretary-Treasurer</i> . . . . .	Duluth
First National Bank	
H. D. THRALL . . . . .	Minneapolis
Minnesota Loan & Trust Co.	
A. A. GREENMAN . . . . .	St. Paul
Northwestern Trust Co.	

## MISSISSIPPI VALLEY GROUP

D. R. FRANCIS, JR., <i>Chairman</i> . . . . .	St. Louis
Francis, Bro. & Co.	
THOS. N. DYSART, <i>Vice-Chairman</i> . . . . .	St. Louis
William R. Compton Company	
TOM K. SMITH, <i>Secretary-Treasurer</i> . . . . .	St. Louis
Kauffman-Smith-Emert & Co., Inc.	
J. HUGH POWERS . . . . .	St. Louis
Mercantile Trust Co.	
HARRY F. STIX . . . . .	St. Louis
Stix & Co.	
L. J. NICOLAUS . . . . .	St. Louis
Stifel-Nicolaus Investment Company	
E. J. COSTIGAN . . . . .	St. Louis
Whitaker & Co.	
W. H. BIXBY . . . . .	St. Louis
G. H. Walker & Co.	
E. J. HEITENBERG . . . . .	Nashville
Caldwell & Co.	

## NEW ENGLAND GROUP

PLINY JEWELL, <i>Chairman</i> . . . . .	Boston
Coffin & Burr, Inc.	
T. T. WHITNEY, JR., <i>Vice-Chairman</i> . . . . .	Boston
Stone & Webster, Inc.	

ARTHUR PERRY, JR., <i>Secretary-Treasurer</i>	Boston
Arthur Perry & Co.	
HENRY J. BEYER	Portland, Me.
Beyer & Small	
JOSEPH J. BODELL	Providence
Bodell & Co.	
THOS. B. GANNETT	Boston
Parkinson & Burr	
G. P. GARDNER, JR.	Boston
Jackson & Curtis	
EDGAR C. RUST	Boston
E. H. Rollins & Sons	
S. HOWARD MARTIN	Boston
Estabrook & Co.	

## NEW ORLEANS GROUP

C. B. THORN, <i>Chairman</i>	New Orleans
Interstate Trust & Banking Co.	
WALTER V. HARVEY, <i>Vice-Chairman</i>	New Orleans
Canal-Commercial Trust & Savings Bank	
JOHN DANE, <i>Secretary-Treasurer</i>	New Orleans
Marine Bank & Trust Company	
R. S. HECHT	New Orleans
Hibernia Securities Co., Inc.	
GEORGE WILLIAMS	New Orleans
Watson, Williams & Co.	
JNO. L. COUTURIER	New Orleans
Whitney-Central Trust & Savings Bank	

## NEW YORK GROUP

ARTHUR SINCLAIR, JR., <i>Chairman</i>	New York
Estabrook & Co.	
CLARKSON POTTER, <i>Vice-Chairman</i>	New York
William R. Compton Company	
FRANK L. SCHEFFET, <i>Secretary-Treasurer</i>	New York
Herrick & Bennett	
G. HERMAN KINNICUTT	New York
Kissel, Kinnicutt & Co.	
RAY MORRIS	New York
Brown Brothers & Co.	
TROWBRIDGE CALLAWAY	New York
Callaway, Fish & Co.	
EVERETT B. SWEET	New York
First National Bank	
ROBT. MALLOY, JR.	New York
Spencer Trask & Co.	

GEO. DEB. GREEN . . . . . New York  
W. A. Harriman & Co., Inc.

## NORTHERN OHIO GROUP

P. T. WHITE, *Chairman* . . . . . Cleveland  
Cleveland Trust Co.  
E. G. TILLOTSON, *Vice-Chairman* . . . . . Cleveland  
Tillotson & Wolcott Co.  
E. S. HANSON, *Secretary-Treasurer* . . . . . Cleveland  
Central National Bank Savings & Trust Co.  
D. W. MYERS . . . . . Cleveland  
Hayden, Miller & Co.  
S. H. HOFF . . . . . Toledo  
Ohio Savings Bank & Trust Co.

## OHIO VALLEY GROUP

EDGAR FRIEDLANDER, *Chairman* . . . . . Cincinnati  
Edgar Friedlander  
JOHN J. ROWE, *Vice-Chairman* . . . . . Cincinnati  
First National Bank  
JOHN E. ROTH, *Secretary-Treasurer* . . . . . Cincinnati  
Weil, Roth & Company  
W. D. BREED . . . . . Cincinnati  
Breed, Elliott & Harrison  
J. R. EDWARDS . . . . . Cincinnati  
Fifth-Third National Bank  
B. W. LAMBSON . . . . . Cincinnati  
Richards, Parish & Lamson  
R. W. LAYLIN . . . . . Columbus  
City National Bank  
P. C. SWING . . . . . Cincinnati  
W. E. Hutton & Co.  
R. S. TALBOTT . . . . . Dayton  
DeWeese-Talbott Co.

## PACIFIC NORTHWEST GROUP

## EXECUTIVE COMMITTEE

FRANK C. PAINE, *Chairman* . . . . . Spokane  
Union Trust Company  
WILLIS K. CLARK, *Vice-Chairman* . . . . . Portland  
Ladd & Tilton Bank  
R. H. MACMICHAEL, *Vice-Chairman* . . . . . Seattle  
Dexter Horton National Bank  
DOUGLAS ALEXANDER, *Secretary-Treasurer* . . . . . Seattle  
Cyrus Peirce & Co.



JOEL E. FERRIS . . . . .	Ferris & Hardgrove	Spokane
ANDREW PRICE . . . . .	John E. Price & Co.	Seattle
CARL KELTY . . . . .	Lumbermens Trust Co.	Portland

## ROCKY MOUNTAIN GROUP

ARTHUR H. BOSWORTH, <i>Chairman</i> . . . . .	Bosworth, Chanute & Co.	Denver
J. WALTER HYER, <i>Vice-Chairman</i> . . . . .	International Trust Company	Denver
WILL H. WADE, <i>Secretary-Treasurer</i> . . . . .	Will H. Wade Company	Denver
RICHARD M. DAY . . . . .	Van Riper, Day & Co.	Denver
CHARLES T. SIDLO . . . . .	Sidlo, Simons, Fels & Co.	Denver

## SOUTHEASTERN GROUP

HORATIO L. WHITTRIDGE, <i>Chairman</i> . . . . .	J. S. Wilson, Jr. & Co.	Baltimore
GEORGE C. COLSTON, <i>Vice-Chairman</i> . . . . .	Colston & Co.	Baltimore
ELLCOTT H. WORTHINGTON, <i>Secretary-Treasurer</i> . . . . .	W. W. Lanahan & Co.	Baltimore
EUGENE E. THOMPSON . . . . .	Crane, Parris & Co.	Washington
W. C. WARDLAW . . . . .	Trust Company of Georgia	Atlanta
M. H. WILLIS . . . . .	Wachovia Bank & Trust Co.	Winston-Salem
JOHN G. BROGDEN . . . . .	Strother, Brogden & Co.	Baltimore

## SOUTHWESTERN GROUP

JOHN A. PRESCOTT, <i>Chairman</i> . . . . .	Prescott & Snider	Kansas City
GEORGE E. PORTER, <i>Vice-Chairman</i> . . . . .	Ford & Porter	St. Joseph
M. K. BAKER, <i>Secretary-Treasurer</i> . . . . .	Guaranty Trust Company of Kansas City	Kansas City
REED C. PETERS . . . . .	Peters Trust Company	Omaha
C. C. ROBERTS . . . . .	American National Bank	Oklahoma City

H. P. WRIGHT . . . . .	Kansas City
H. P. Wright Investment Co.	
SIGMUND STERN . . . . .	Kansas City
Stern Brothers & Co.	

## WESTERN PENNSYLVANIA GROUP

## EXECUTIVE COMMITTEE

H. C. McELDOWNEY, <i>Chairman</i> . . . . .	Pittsburgh
Union Trust Company	
JOHN G. LYON, <i>Vice-Chairman</i> . . . . .	Pittsburgh
Lyon, Singer & Co.	
ERNEST CRIST, <i>Secretary-Treasurer</i> . . . . .	Pittsburgh
Mellon National Bank	
GEORGE G. APPLGATE . . . . .	Pittsburgh
George G. Applegate	
ROBERT R. GORDON . . . . .	Pittsburgh
Gordon & Company	
JOSEPH H. HOLMES . . . . .	Pittsburgh
J. H. Holmes & Co.	
BAIRD MITCHELL . . . . .	Wheeling
Mitchell & Stevenson, Inc.	
A. G. WELLS . . . . .	Pittsburgh
Wells, Deane & Singer	
H. E. ANDERSON . . . . .	Pittsburgh
Callaway, Fish & Co.	



**MEMBERSHIP**  
**OF THE**  
**Investment Bankers Association**  
***of* America**

***January 31, 1922***



**MEMBERSHIP**  
**OF THE**  
**Investment Bankers Association**  
***of* America**

***January 31, 1922***



## MEMBERSHIP

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### AKRON, OHIO

\*Borton & Borton . . . . . 39 Main St.

### ALBANY, N. Y.

\*Trask & Co., Spencer . . . . . 74 Chapel St.

### ALLENTOWN, PA.

\*McClure, Smith & Co., Inc. . . . . Colonial Theater Bldg.

### ATLANTA, GA.

Robinson-Humphrey Company	Citizens & Southern Bank Bldg.
Securities Sales Co. . . . .	64 Peachtree St.
Trust Company of Georgia . . . . .	53 N. Pryor St.

### AURORA, ILL.

Armstrong Co., W. W. . . . . 18 Fox St.

### BALTIMORE, MD.

Baker, Watts & Co. . . . .	Calvert & Redwood Sts.
Baltimore Trust Company . . . . .	25 E. Baltimore St.
Barroll, Corkran & Co. . . . .	Stock Exchange Bldg.
Brown & Sons, Alexander . . . . .	135 E. Baltimore St.
*Cassatt & Co. . . . .	235 E. Redwood St.
Colston & Co. . . . .	3 N. Calvert St.
Continental Company . . . . .	Continental Trust Bldg.
Daly & Co., Owen . . . . .	23 South St.
*Dillon, Read & Co. . . . .	Garrett Bldg.
Equitable Trust Company . . . . .	Calvert & Fayette Sts.
Fidelity Securities Corporation . . . . .	Fidelity Bldg.
Fidelity Trust Company . . . . .	Charles & Lexington Sts.
Fisher & Sons, J. Harmanus . . . . .	7 South St.
Garrett & Sons, Robert . . . . .	South & Redwood Sts.
Hambleton & Co. . . . .	10 S. Calvert St.
*Harris, Forbes & Co. . . . .	211 E. Redwood St.
Howard & Co., John D. . . . .	South & Redwood Sts.
Lanahan & Co., W. W. . . . .	Calvert Bldg.
*Leach & Co., Inc., A. B. . . . .	Maryland Trust Bldg.
Mackubin, Goodrich & Co. . . . .	111 E. Redwood St.

\*Branch Office.



Mercantile Trust & Deposit Co. . . . .	Calvert & Redwood Sts.
*Miller & Co. . . . .	7 St. Paul St.
Nelson, Cook & Co. . . . .	Calvert & Redwood Sts.
*Redmond & Co. . . . .	19 South St.
Scott & Son, Townsend . . . . .	209 E. Fayette St.
Strother, Brogden & Co. . . . .	Calvert & Redwood Sts.
Union Trust Company of Maryland . . . . .	Charles & Fayette Sts.
*Westheimer & Company . . . . .	211 E. Redwood St.
Wilson & Co., J. S., Jr. . . . .	Calvert Bldg.

## BANGOR, ME.

Merrill Trust Company . . . . .	2 Hammond St.
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## BIRMINGHAM, ALA.

Marx & Co. . . . .	Brown-Marx Bldg.
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## BOSTON, MASS.

*American Express Company . . . . .	43 Franklin St.
Baker & Co., Inc., B. J. . . . .	209 Washington St.
Baker, Ayling & Young . . . . .	50 Congress St.
Blodget & Co. . . . .	60 State St.
*Bodell & Co. . . . .	35 Congress St.
*Bonbright & Company, Inc. . . . .	55 Congress St.
Bond & Goodwin . . . . .	30 State St.
*Brown Brothers & Co. . . . .	60 State St.
Burgess, Lang & Co. . . . .	Sears Bldg.
*Chandler, Wilbor & Co., Inc. . . . .	185 Devonshire St.
Chase & Co. . . . .	19 Congress St.
Coffin & Burr, Inc. . . . .	60 State St.
Conant & Co., A. B. . . . .	95 Milk St.
Curtis & Sanger . . . . .	33 Congress St.
Day & Co., R. L. . . . .	35 Congress St.
*Dillon, Read & Co. . . . .	19 Congress St.
*Doherty & Company, Henry L. . . . .	19 Congress St.
*Eldredge & Company . . . . .	73 Water St.
Estabrook & Co. . . . .	15 State St.
Fernald & Co., Geo. A. . . . .	19 Milk St.
*Fisk & Sons, Inc., Harvey . . . . .	60 State St.
*Goldman, Sachs & Co. . . . .	60 Congress St.
*Grant & Co., R. M. . . . .	85 Devonshire St.
*Guaranty Company of New York . . . . .	111 Devonshire St.
*Halsey, Stuart & Co., Inc. . . . .	111 Devonshire St.
Harris, Forbes & Co., Inc. . . . .	35 Federal St.
*Hayden, Stone & Co. . . . .	87 Milk St.
*Hemphill, Noyes & Co. . . . .	35 Congress St.
Hornblower & Weeks . . . . .	60 Congress St.

\*Branch Office.

Jackson & Curtis . . . . .	19 Congress St.
Kidder, Peabody & Co. . . . .	115 Devonshire St.
*Leach & Co., Inc., A. B. . . . .	209 Washington St.
Lee, Higginson & Co. . . . .	44 State St.
Marshall & Company, Inc. . . . .	70 State St.
Merrill, Oldham & Company . . . . .	35 Congress St.
Moors & Cabot . . . . .	111 Devonshire St.
Moseley & Co., F. S. . . . .	50 Congress St.
Old Colony Trust Company . . . . .	17 Court St.
*Paine, Webber & Co. . . . .	82 Devonshire St.
Parker & Company, Inc., C. D. . . . .	67 Milk St.
Parkinson & Burr . . . . .	53 State St.
Perry & Co., Arthur . . . . .	19 Milk St.
Richardson, Hill & Co. . . . .	50 Congress St.
Rollins & Sons, E. H. . . . .	200 Devonshire St.
Stone & Webster, Inc. . . . .	147 Milk St.
*Trask & Co., Spencer . . . . .	50 Congress St.
Tucker, Anthony & Co. . . . .	53 State St.
*White, Weld & Co. . . . .	111 Devonshire St.
Wildes & Co., Inc., M. H. . . . .	30 State St.
Wise, Hobbs & Arnold . . . . .	15 Congress St.

## BUFFALO, N. Y.

Chambers & Co., Inc., A. L. . . . .	Marine Trust Bldg.
*Fisk & Sons, Inc., Harvey . . . . .	974 Ellicott Square
O'Brian, Potter & Co., Inc. . . . .	215 Main St.
Steele, John T. . . . .	Fidelity Bldg.
Vietor, Hubbell, Rea & Common . . . . .	614 Ellicott Square

## CANTON, OHIO

United Security Company . . . . .	New Vicary Bldg.
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## CHARLESTON, S. C.

Charleston Security Company . . . . .	16 Broad St.
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## CHICAGO, ILL.

American Bond & Mortgage Co. . . . .	127 N. Dearborn St.
*American Express Company . . . . .	32 N. Dearborn St.
*Ames & Co., A. E. . . . .	111 W. Monroe St.
Ames, Emerich & Co. . . . .	105 S. La Salle St.
Babcock, Rushton & Co. . . . .	137 S. La Salle St.
Baker & Co., Alfred L. . . . .	141 S. La Salle St.
Baker, Fentress & Co. . . . .	208 S. La Salle St.
Bartlett & Gordon, Inc. . . . .	79 W. Monroe St.
Bartlett, Knight & Co. . . . .	29 S. La Salle St.
Becker & Co., A. G. . . . .	137 S. La Salle St.

\*Branch Office.

*Blair & Co., Inc.	105 S. La Salle St.
*Blodget & Co.	79 W. Monroe St.
Bolger, Mosser & Willaman	29 S. La Salle St.
*Bonbright & Company, Inc.	209 S. La Salle St.
*Bond & Goodwin	29 S. La Salle St.
Breed, Elliott & Harrison	105 S. La Salle St.
Brewer & Company, F. A.	208 S. La Salle St.
Brokaw & Company	105 S. La Salle St.
Burnham & Co., Inc., John	41 S. La Salle St.
*Burr & Co., George H.	209 S. La Salle St.
Byllesby & Co., H. M.	208 S. La Salle St.
Central Bond & Mortgage Co.	208 S. La Salle St.
Central Trust Company of Illinois	125 W. Monroe St.
Chapman & Co., Inc., P. W.	112 S. La Salle St.
Chicago Trust Company	7 W. Madison St.
Childs & Co., C. F.	208 S. La Salle St.
*Compton Company, William R.	105 S. La Salle St.
Continental and Commercial Securities Co.	208 S. La Salle St.
Continental and Commercial Trust and Savings Bank	208 S. La Salle St.
Corporation Securities Co.	209 S. La Salle St.
*Curtis & Sanger	129 S. La Salle St.
Devitt, Tremble & Co.	38 S. Dearborn St.
*DeWolf & Company, Inc.	111 W. Monroe St.
*Dillon, Read & Co.	209 S. La Salle St.
Dodge & Ross, Inc.	111 W. Monroe St.
*Doherty & Company, Henry L.	208 S. La Salle St.
Elston, Allyn & Company	71 W. Monroe St.
Emery, Peck & Rockwood	208 S. La Salle St.
Federal Securities Corporation	38 S. Dearborn St.
*Fenton, Davis & Boyle	68 W. Monroe St.
Fidelity Trust & Savings Bank	Wilson Ave. at Broadway
*First National Company (of Detroit)	209 S. La Salle St.
First Trust & Savings Bank	56 W. Monroe St.
*Fisk & Sons, Inc., Harvey	105 S. La Salle St.
Freeman & Co., Walter	111 W. Washington St.
*Goldman, Sachs & Co.	137 S. La Salle St.
Goodwillie & Co.	112 W. Adams St.
Gorrell & Company	209 S. La Salle St.
*Grant & Co., R. M.	111 W. Monroe St.
Greenebaum Sons Investment Co.	11 S. La Salle St.
*Guaranty Company of New York	105 S. La Salle St.
*Hallgarten & Co.	79 W. Monroe St.
Halsey, Stuart & Co., Inc.	209 S. La Salle St.
*Harriman & Co. Inc., W. A.	108 S. La Salle St.
Harris Trust & Savings Bank	115 W. Monroe St.

\*Branch Office.

*Harris, Winthrop & Co.	209 S. La Salle St.
Hill, Joiner & Co.	105 S. La Salle St.
Hitchcock & Co., F. B.	39 S. La Salle St.
*Hodenpyl, Hardy & Co., Inc.	38 S. Dearborn St.
Holtz & Co., H. T.	39 S. La Salle St.
*Hornblower & Weeks	37 S. La Salle St.
Illinois Trust & Savings Bank	233 S. La Salle St.
King, Hoagland & Co.	14 S. La Salle St.
*Kissel, Kinnicutt & Co.	209 S. La Salle St.
Konsberg & Co., E. T.	53 W. Jackson Blvd.
Lacey Timber Co., Jas. D.	332 S. Michigan Ave.
*Leach & Co., Inc., A. B.	105 S. La Salle St.
*Lee, Higginson & Co.	209 S. La Salle St.
Lobdell & Co., Inc., Edwin L.	209 S. La Salle St.
Marshall Field, Gloré, Ward & Co.	137 S. La Salle St.
McNear & Co., C. W.	76 W. Monroe St.
Merchants Loan & Trust Company.	112 W. Adams St.
*Merrill, Lynch & Co.	105 S. La Salle St.
Metropolitan Company	208 S. La Salle St.
Mitchell, Hutchins & Co., Inc.	209 S. La Salle St.
*Moseley & Co., F. S.	137 S. La Salle St.
National Bank of the Republic	39 S. La Salle St.
National City Bank of Chicago	105 S. Dearborn St.
*National City Company	137 S. La Salle St.
Northern Trust Company	50 S. La Salle St.
Nuveen & Co., John	38 S. Dearborn St.
*Paine, Webber & Co.	209 S. La Salle St.
Peabody, Houghteling & Co., Inc.	10 S. La Salle St.
Pearsons-Taft Land Credit Co.	105 S. La Salle St.
Peoples Trust & Savings Bank	30 N. Michigan Ave.
Powell, Garard & Co.	39 S. La Salle St.
*Prudden & Co.	108 S. La Salle St.
*Pynchon & Co.	209 S. La Salle St.
*Rollins & Sons, E. H.	111 W. Jackson Blvd.
Ross & Co., Inc., Wm. L.	108 S. La Salle St.
Russell, Brewster & Co.	116 W. Adams St.
Rutter, Lindsay & Co., Inc.	209 S. La Salle St.
*Second Ward Securities Co.	108 S. La Salle St.
Shapker & Company	134 S. La Salle St.
Souders & Co., W. G.	208 S. La Salle St.
Speer & Sons Company, H. C.	38 S. Dearborn St.
Stacy & Braun	108 S. La Salle St.
Standard Trust & Savings Bank	105 W. Monroe St.
*Stanley & Bissell	29 S. La Salle St.
State Bank of Chicago	135 W. Washington St.
Stevenson Bros. & Perry, Inc.	105 S. La Salle St.
*Branch Office.	

*Stone & Webster, Inc.	38 S. Dearborn St.
Straus & Co., Inc., S. W.	6 N. Clark St.
*Straus Brothers Company	10 S. La Salle St.
Taylor, Ewart & Co., Inc.	105 S. La Salle St.
*Trask & Co., Spencer	208 S. La Salle St.
Union Trust Company	11 S. Dearborn St.
Wilsey & Co., R. E.	111 W. Monroe St.
Wollenberger & Co.	105 S. La Salle St.
Wyant & Co.	108 S. La Salle St.

## CINCINNATI, OHIO

Atlas National Bank	518 Walnut St.
Aub & Co., A. E.	Union Trust Bldg.
Ballinger-Scheuman Company	Union Trust Bldg.
Beazell & Chatfield	Union Central Bldg.
*Breed, Elliott & Harrison	320 Walnut St.
Brighton Bank & Trust Company	Harrison & Colerain Aves.
Central Trust Company	115 E. 4th St.
Channer & Sawyer	Union Trust Bldg.
*Compton Company, William R.	Union Trust Bldg.
Davies-Bertram Co.	Mercantile Library Bldg.
*Dominick & Dominick	Wiggins Block
Fifth-Third National Bank	4th & Vine Sts.
First National Bank	4th & Walnut Sts.
Friedlander, Edgar	First National Bldg.
Hutton & Co., W. E.	First National Bldg.
Irwin, Ballmann & Co.	330 Walnut St.
Mayer & Co., J. C.	318 Walnut St.
*Otis & Co.	First National Bldg.
Provident Savings Bank & Trust Co.	7th & Vine Sts.
Richards, Parish & Lamson	Union Central Bldg.
Seasongood & Mayer	Ingalls Bldg.
*Stacy & Braun	Union Central Bldg.
*Tillotson & Wolcott Company	Union Trust Bldg.
Union Savings Bank & Trust Co.	4th & Walnut Sts.
Weil, Roth & Co.	139 E. 4th St.
Western Bank & Trust Company	12th & Vine Sts.
Westheimer & Company	326 Walnut St.

## CLEVELAND, OHIO

*Blair & Co., Inc.	Guardian Bldg.
Borton & Borton	Hanna Bldg.
Central National Bank Savings & Trust Co.	Kirby Bldg.
Cleveland Trust Company	Euclid Ave. & E. 9th St.
Dietz, William G.	Citizens Bldg.

\*Branch Office.

*Dillon, Read & Co.	Citizens Bldg.
Guardian Savings & Trust Co.	623 Euclid Ave.
*Harris, Forbes & Co.	Union Commerce Bldg.
Hayden, Miller & Company	Citizens Bldg.
Herrick Company	Cuyahoga Bldg.
*Leach & Co., Inc., A. B.	Guardian Bldg.
Meacham, Roland T.	Guardian Bldg.
Murch Co., Maynard H.	Union National Bank Bldg.
*National City Company	Guardian Bldg.
Otis & Co.	216 Superior Ave.
*Richards, Parish & Lamson	631 Euclid Ave.
Stanley & Bissell	National City Bldg.
Tillotson & Wolcott Company	Guardian Bldg.
Union Trust Company	First National Bank Bldg.
*United Security Company	Leader Bldg.
Worthington, Bellows & Co.	Guardian Bldg.

## COLORADO SPRINGS, COLO.

*Otis & Co.	127 E. Pikes Peak Ave.
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## COLUMBUS, OHIO

City National Bank	Gay and High Sts.
Meeker, Claude	8 E. Broad St.
National Bank of Commerce	High and Spring Sts.
Ohio National Bank	High & Town Sts.
*Otis & Co.	Spahr Bldg.

## DAVENPORT, IOWA

Bechtel & Co., Geo. M.	211 Brady St.
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## DAYTON, OHIO

DeWeese-Talbott Co.	Callahan Bank Bldg.
*United Security Company	Reibold Bldg.

## DENVER, COLO.

Antonides & Company	U. S. National Bank Bldg.
Bankers Trust Company	724 17th St.
Benwell, Phillips & Company	Colorado National Bank Bldg.
Boettcher, Porter & Co.	Gas & Electric Bldg.
Bosworth & Co., Edwin M.	1717 Stout St.
Bosworth, Chanute & Co.	701 17th St.
Bullock, Calvin	Colorado National Bank Bldg.
Gregg, Whitehead & Co.	First National Bldg.
International Trust Company	17th & California Sts.
*Otis & Co.	Equitable Bldg.

\*Branch Office.

*Rollins & Sons, E. H. . . . .	Cor. 17th & California Sts.
Sidlo, Simons, Fels & Co. . . . .	First National Bldg.
Van Riper, Day & Co. . . . .	17th and Curtis Sts.
Wade Company, Will H. . . . .	U. S. National Bank Bldg.
Wilson, Cranmer & Company . . . . .	First National Bldg.

## DETROIT, MICH.

*Bolger, Mosser & Willaman . . . . .	Dime Bank Bldg.
*Bonbright & Company, Inc. . . . .	Union Trust Bldg.
Bumpus-Hull & Company . . . . .	161 W. Congress St.
*Childs & Co., C. F. . . . .	Penobscot Bldg.
Detroit Trust Company . . . . .	Fort & Shelby Sts.
Federal Bond & Mortgage Co., Inc. . . . .	Griswold & Clifford Sts.
Fenton, Davis & Boyle . . . . .	130 W. Congress St.
First National Company . . . . .	605 Griswold St.
*Halsey, Stuart & Co., Inc. . . . .	Ford Bldg.
Harris, Small & Lawson . . . . .	150 W. Congress St.
*Hornblower & Weeks . . . . .	Penobscot Bldg.
Keane, Higbie & Co. . . . .	431 Griswold St.
MacCrone & Company, E. E. . . . .	Penobscot Bldg.
*Merrill, Lynch & Co. . . . .	Penobscot Bldg.
Moss & Co. W. E. . . . .	Union Trust Bldg.
Nicol, Ford & Co., Inc. . . . .	Ford Bldg.
Peoples State Bank . . . . .	Fort & Shelby Sts.
Security Trust Company . . . . .	653 Griswold St.
*Souders & Co., W. G. . . . .	Dime Bank Bldg.
*Stacy & Braun . . . . .	Ford Bldg.
Stockard & Co., Joel . . . . .	Penobscot Bldg.
*Straus Brothers Company . . . . .	Farwell Bldg.
Union Trust Company . . . . .	Union Trust Bldg.
Watling, Lerchen & Co. . . . .	168 W. Congress St.
Whittlesey, McLean & Co. . . . .	Penobscot Bldg.

## DULUTH, MINN.

American Exchange National Bank . . . . .	Cor. 3rd Ave., W., & Superior St.
City National Bank . . . . .	Superior St. and 2nd Ave., W.
First National Bank of Duluth . . . . .	3rd Ave., W., & Superior St.
Northern National Bank . . . . .	302 W. Superior St.
Ray & Co., Philip L. . . . .	Alworth Bldg.

## FORT WAYNE, IND.

Lincoln National Bank . . . . .	721 Court St.
*Straus Brothers Company . . . . .	817 Calhoun St.
*Branch Office.	

**GRAND RAPIDS, MICH.**

*Fenton, Davis & Boyle	Michigan Trust Bldg.
Howe, Snow, Corrigan & Bertles	Grand Rapids Savings Bank Bldg.
Kusterer & Co., A. E.	Michigan Trust Bldg.
Old National Bank	177 Monroe St.
Perkins, Everett & Geistert	Michigan Trust Bldg.

**GREENSBORO, N. C.**

**Henderson-Winder Company . Greensboro Nat'l Bank Bldg.**

**HARTFORD, CONN.**

**Barnes & Co., Roy T. H. . . . . 77 Pearl St.**

**HOUSTON, TEXAS**

**Neuhaus & Company . . . . Union National Bank Bldg.**

**INDIANAPOLIS, IND.**

*Breed, Elliott & Harrison . . .	Fletcher American Bldg.
Fletcher American Company . . .	Fletcher American Bldg.
Fletcher Savings & Trust Co. . .	Market & Penn Sts.
Jewett & Company . . .	Fletcher Savings & Trust Bldg.
Sheerin and Co., Thomas D. . .	Fletcher Savings & Trust Bldg.

**JACKSON, TENN.**

**Tigrett & Company, I. B.** . . . **Market & Lafayette Sts.**

**JANESVILLE, WIS.**

**\*Gold-Stabeck Company . . . . . 15 W. Milwaukee St.**

## JOHNSTOWN, PA.

**\*West & Co. . . . . Title, Trust & Guarantee Bldg.**

**KANSAS CITY, MO.**

*Brown-Crummer Company . . . .	First National Bldg.
Commerce Trust Company . . . .	Tenth & Walnut Sts.
Fidelity National Bank & Trust Co. . . .	Ninth & Walnut Sts.
Gary & Company, Theodore . . . .	Telephone Bldg.
Guaranty Trust Company of Kansas City . . . .	9 W. Eleventh St.
Prescott & Snider . . . . .	First National Bldg.
Stern Brothers & Co. . . . .	1013 Baltimore Ave.
Wright Investment Co., H. P. . . . .	923 Baltimore Ave.

**LANCASTER, PA.**

\*West & Co. . . . . Woolworth Bldg.  
\*Branch Office.



**LIGONIER, IND.**

**Straus Brothers Company** . . . Cor. Cavin & Third Sts.

**LINCOLN, NEB.**

**Lincoln Trust Company** . . . . . 126 N. 11th St.

**LOS ANGELES, CALIF.**

**Aronson & Company** . . . . . Herman W. Hellman Bldg.  
**Banks, Huntley & Company** . . . . . 639 S. Spring St.  
**Bayly Brothers** . . . . . 626 S. Spring St.  
**\*Blyth, Witter & Co.** . . . . . Trust & Savings Bldg.  
**\*Bond & Goodwin & Tucker, Inc.** . . . . . Title Insurance Bldg.  
**California Bank** . . . . . 8th St. & Broadway  
**California Company** . . . . . 626 S. Spring St.  
**\*Carstens & Earles, Inc.** . . . . . Title Insurance Bldg.  
**Drake, Riley & Thomas** . . . . . 210 W. 7th St.  
**First Securities Company** . . . . . First Trust & Savings Bldg.  
**Frick, Martin & Co.** . . . . . 111 W. 4th St.  
**\*Girvin & Miller, Inc.** . . . . . Merchants National Bank Bldg.  
**Guaranty Trust & Savings Bank** . . . . . 7th & Spring Sts.  
**Hunter, Dulin & Co.** . . . . . Van Nuys Bldg.  
**Lewis & Company, M. H.** . . . . . Citizens National Bank Bldg.  
**\*Merrill, Lynch & Co.** . . . . . Van Nuys Bldg.  
**Moulton & Company, R. H.** . . . . . Title Insurance Bldg.  
**\*National City Company** . . . . . 507 S. Spring St.  
**\*Peirce & Co., Cyrus** . . . . . 639 S. Spring St.  
**\*Rollins & Sons, E. H.** . . . . . Security Bldg.  
**Security Trust & Savings Bank** . . . . . 5th & Spring Sts.  
**Staats Co., Wm. R.** . . . . . 640 S. Spring St.  
**\*Stephens & Company** . . . . . 521 S. Spring St.  
**Stevens, Page & Sterling** . . . . . Van Nuys Bldg.

**LOUISVILLE, KY.**

**United States Trust Company** . . . . . Fifth & Main Sts.  
**Willson & Co., James C.** . . . . . 210 S. Fifth St.

**MACON, GA.**

**Davis & Co., W. M.** . . . . . Georgia Casualty Bldg.

**MADISON, WIS.**

**Boyd Company, Joseph M.** . . . . . 2 S. Carroll St.  
**Central Wisconsin Trust Co.** . . . . . 1 S. Pinckney St.  
**Madison Bond Company** . . . . . Gay Bldg.

**MEMPHIS, TENN.**

**Bank of Commerce & Trust Co.** . . . . . 12 S. Main St.

\*Branch Office.

## MILWAUKEE, WIS.

*Ames, Emerich & Co. . . . .	First Wisconsin Nat'l Bank Bldg.
Best & Gagg Co. . . . .	448 Broadway
DeWolf & Company, Inc. . . . .	97 Wisconsin St.
Edgar, Ricker & Co. . . . .	438 E. Water St.
*Elston, Allyn & Company . . . . .	First Wisconsin Nat'l Bank Bldg.
*Emery, Peck & Rockwood . . . . .	Railway Exchange
First Wisconsin Company . . . . .	407 E. Water St.
Fox & Co., Morris F. . . . .	437 E. Water St.
Grossman, Lewis & Co. . . . .	425 E. Water St.
*Halsey, Stuart & Co., Inc. . . . .	Railway Exchange
Marshall & Hsley Bank . . . . .	415 E. Water St.
National Bank of Commerce . . . . .	105 Wells St.
*Pyncheon & Co. . . . .	361 Broadway
Quarles & Co., Henry C. . . . .	Trust Co. Bldg.
Second Ward Securities Co. . . . .	Third & Cedar Sts.

## MINNEAPOLIS, MINN.

Drake-Ballard Company . . . . .	Palace Bldg.
Eastman Co., William W. . . . .	Security Bldg.
Gold-Stabeck Company . . . . .	627 Second Ave., S.
*Kalman, Wood & Co. . . . .	McKnight Bldg.
Lane, Piper & Jaffray, Inc. . . . .	First Nat'l Soo Line Bldg.
Lowe Co., Inc., Justus F. . . . .	McKnight Bldg.
Minneapolis National Bank . . . . .	Nicollet at Lake St.
Minneapolis Trust Company . . . . .	115 S. Fifth St.
Minnesota Loan & Trust Co. . . . .	405 Marquette Ave.
*Paine, Webber & Company . . . . .	McKnight Bldg.
Stevens & Company . . . . .	529 Second Ave., S.
Wells-Dickey Co. . . . .	McKnight Bldg.

## MONTREAL, QUEBEC

Aldred & Co., Ltd. . . . .	Royal Trust Bldg.
*Ames & Co., A. E. . . . .	Transportation Bldg.
*Dominion Securities Corporation, Ltd. . . . .	Canada Life Bldg.
Greenshields & Co. . . . .	17 St. John St.
*Wood, Gundy & Company . . . . .	157 St. James St.

## NASHVILLE, TENN.

Caldwell & Co. . . . .	214 Union St.
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## NEWARK, N. J.

Fidelity Union Trust Company . . . . .	755 Broad St.
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## NEW BEDFORD, MASS.

*Tucker, Anthony & Co. . . . .	557 Pleasant St.
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\*Branch Office.

## NEW ORLEANS, LA.

American Securities Corp'n, Inc.	619 Common St.
Canal-Commercial Trust & Savings Bank	Carondelet & Common Sts.
*Compton Company, William R.	Hibernia Bank Bldg.
Hibernia Securities Company, Inc.	Hibernia Bank Bldg.
Interstate Trust & Banking Co.	Camp & Canal Sts.
Marine Bank & Trust Co.	219 Carondelet St.
Mortgage & Securities Company	Camp & Canal Sts.
Newman & Sons, M. W.	Carondelet Bldg.
Securities Sales Company of Louisiana, Inc.	Carondelet Bldg.
Stanton & Co., Lewis H.	822 Common St.
Sutherlin-Barry & Co., Inc.	Hibernia Bank Bldg.
Watson, Williams & Co.	830 Common St.
Wheeler & Woolfolk	712 Common St.
Whitney-Central Trust & Savings Bank	St. Charles & Gravier Sts.

## NEW YORK CITY

Aldred & Company	42 Wall St.
American Express Company	65 Broadway
*Ames & Co., A. E.	74 Broadway
*Ames, Emerich & Co.	111 Broadway
*Bachman & Co., H. F.	61 Broadway
Bankers Trust Company	16 Wall St.
Barney & Co., Chas. D.	15 Broad St.
Barr & Schmeltzer	14 Wall St.
Barstow & Co., Inc., W. S.	50 Pine St.
*Becker & Co., A. G.	111 Broadway
Berdell Brothers	111 Broadway
Bernhard, Scholle & Co.	14 Wall St.
Bertron, Griscom & Co., Inc.	40 Wall St.
Bickmore & Co. A. H.	111 Broadway
Bigelow & Company	25 Pine St.
Blair & Co., Inc.	24 Broad St.
*Blodget & Co.	34 Pine St.
*Blyth, Witter & Co.	61 Broadway
*Bodell & Co.	115 Broadway
Bonbright & Company, Inc.	25 Nassau St.
Bond & Co., S. N.	111 Broadway
*Bond & Goodwin	65 Broadway
Brown Brothers & Co.	59 Wall St.
Burr & Co., George H.	120 Broadway
*Byllesby & Co., H. M.	111 Broadway
Byrne & Co., J. M.	60 Broadway

\*Branch Office.

Callaway, Fish & Co.	37 Wall St.
*Cassatt & Co.	5 Nassau St.
Chamberlain & Co., Inc., Lawrence	115 Broadway
*Chapman & Co., P. W.	115 Broadway
Chase Securities Corporation	61 Broadway
Chatham & Phenix National Bank	149 Broadway
*Childs & Co., C. F.	120 Broadway
Clark, Dodge & Co.	51 Wall St.
*Coffin & Burr, Inc.	61 Broadway
Coffin & Company	34 Pine St.
*Compton Company, William R.	14 Wall St.
Converse & Co., A. D.	5 Nassau St.
Corn Exchange Bank	13 William St.
*Curtis & Sanger	49 Wall St.
Dillon, Read & Co.	28 Nassau St.
Doherty & Company, Henry L.	60 Wall St.
Dominick & Dominick	115 Broadway
Eastman, Dillon & Co.	71 Broadway
*Edwards & Sons, A. G.	38 Wall St.
Eldredge & Company	7 Wall St.
Electric Bond & Share Company	71 Broadway
Equitable Trust Company of New York	37 Wall St.
*Estabrook & Co.	24 Broad St.
First National Bank of New York	2 Wall St.
Fisk & Sons, Inc., Harvey	32 Nassau St.
Goldman, Sachs & Co.	60 Wall St.
*Graham, Parsons & Co.	30 Pine St.
Grant & Co., R. M.	31 Nassau St.
Guaranty Company of New York	140 Broadway
Hallgarten & Co.	5 Nassau St.
*Halsey, Stuart & Co., Inc.	49 Wall St.
*Hambleton & Co.	43 Exchange Pl.
Harriman & Co., Inc., W. A.	25 Broad St.
Harris, Forbes & Co.	56 William St.
Harris, Winthrop & Co.	52 Broadway
Hatch & Co., Frederic H.	74 Broadway
Hayden, Stone & Co.	25 Broad St.
Hemphill, Noyes & Co.	37 Wall St.
*Hibernia Securities Company, Inc.	17 Cedar St.
Hill & Co., Charles W.	2 Wall St.
Hitt, Farwell & Park	160 Broadway
Hodenpyl, Hardy & Co., Inc.	14 Wall St.
Holmes & Co., J. H.	61 Broadway
*Hornblower & Weeks	42 Broadway
*Hutton & Co., W. E.	60 Broadway
Irving National Bank	233 Broadway

\*Branch Office.

*Jackson & Curtis	43 Exchange Pl.
Jelke, Hood & Co.	40 Wall St.
Jones & Co., Chas. H.	20 Broad St.
Kean, Taylor & Co.	5 Nassau St.
Kidder & Co., A. M.	5 Nassau St.
*Kidder, Peabody & Co.	18 Broad St.
Kissel, Kinnicutt & Co.	14 Wall St.
Knauth, Nachod & Kuhne	120 Broadway
Kountze Brothers	141 Broadway
Kuhn, Loeb & Co.	52 William St.
*Lacey Timber Co., Jas. D.	350 Madison Ave.
Ladd & Wood	7 Wall St.
Langley & Co., W. C.	115 Broadway
Leach & Co., Inc., A. B.	62 Cedar St.
*Lee, Higginson & Co.	43 Exchange Pl.
Lisman & Co., F. J.	61 Broadway
Low, Dixon & Co.	37 Wall St.
Mackay & Co.	14 Wall St.
*Marshall Field, Glore, Ward & Co.	14 Wall St.
McBee, Jones & Company	120 Broadway
Merrill, Lynch & Co.	120 Broadway
Miller & Co.	120 Broadway
Millett, Roe & Hagen	52 William St.
Morgan & Co., J. P.	23 Wall St.
*Moseley & Co., F. S.	26 Exchange Pl.
National Bank of Commerce in New York	31 Nassau St.
National City Company	55 Wall St.
*Newburger, Henderson & Loeb	100 Broadway
New York Trust Company	120 Broadway
Nickerson, John, Jr.	61 Broadway
Paine, Webber & Co.	25 Broad St.
Parker & Company	49 Wall St.
*Peabody, Houghteling & Co.	366 Madison Ave.
Potter & Co.	5 Nassau St.
Pouch & Company	14 Wall St.
Pynchon & Co.	111 Broadway
Redmond & Co.	33 Pine St.
Reinhart & Bennet	52 Broadway
Remick, Hodges & Co.	14 Wall St.
Rhoades & Company	30 Pine St.
*Richards, Parish & Lamson	52 Broadway
Robinson & Company	26 Exchange Pl.
*Rollins & Sons, E. H.	43 Exchange Pl.
Rothschild & Co., L. F.	120 Broadway
Salomon Bros. & Hutzler	27 Pine St.
Seasongood, Haas & Macdonald	60 Broadway

\*Branch Office.

*Seasongood & Mayer . . . . .	149 Broadway
Seligman & Co., J. & W. . . . .	54 Wall St.
Smith & Co., W. E. R. . . . .	111 Broadway
Smithers & Co., F. S. . . . .	19 Nassau St.
Speyer & Co. . . . .	24 Pine St.
*Stacy & Braun . . . . .	5 Nassau St.
*Stone & Webster, Inc. . . . .	120 Broadway
*Straus & Co., Inc., S. W. . . . .	565 Fifth Ave
Strong, Sturgis & Co. . . . .	36 Broad St.
Sutro Bros. & Co. . . . .	120 Broadway
*Taylor, Ewart & Co., Inc. . . . .	34 Pine St.
Trask & Co., Spencer . . . . .	25 Broad St.
*Tucker, Anthony & Co. . . . .	60 Broadway
Turnure & Co., Lawrence . . . . .	64 Wall St.
United States Mortgage & Trust Co. . . . .	55 Cedar St.
Walbridge & Co., H. D. . . . .	14 Wall St.
Watkins & Company . . . . .	7 Wall St.
*Weil, Roth & Co. . . . .	115 Broadway
*Weissenfluh & Co. . . . .	10 Wall St.
White & Co., Inc., J. G. . . . .	37 Wall St.
White, Weld & Co. . . . .	14 Wall St.
Winslow, Lanier & Co. . . . .	59 Cedar St.
Wood, Gundy & Co., Inc. . . . .	14 Wall St.
Wood, Struthers & Co. . . . .	5 Nassau St.
Zimmermann & Forshay . . . . .	170 Broadway

## OAKLAND, CALIF.

*Shingle, Brown & Company . . . . .	Syndicate Bldg.
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## OGDEN, UTAH

*Hogle & Co., J. A. . . . .	Eccles Bldg.
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## OKLAHOMA CITY, OKLA.

American National Bank . . . . .	American National Bldg.
Brooks, W. A. . . . .	First National Bldg.
Edwards, R. J. . . . .	First National Bldg.
Gilbert, George I. . . . .	Insurance Bldg.
Honnold, C. Edgar . . . . .	First National Bldg.
McMahan, A. J. . . . .	Insurance Bldg.

## OMAHA, NEB.

*Brown-Crummer Company . . . . .	First Nat'l Bank Bldg.
First Trust Company of Omaha . . . . .	First Nat'l Bank Bldg.
Omaha Trust Company . . . . .	17th & Farnam Sts.
Peters Trust Company . . . . .	Farnam & 17th Sts.
United States Trust Company . . . . .	1612 Farnam St.

\*Branch Office.

## OTTAWA, QUEBEC

\*Greenshields & Co. . . . . Central Chambers

## PASADENA, CALIF.

\*Hunter, Dulin & Co. . . . . 210 E. Colorado St.  
 \*Staats Co., Wm. B. . . . . 65 S. Raymond Ave.

## PHILADELPHIA, PA.

\*American Express Company . . . . . 143 S. Broad St.  
 Bachman & Co., H. F. . . . . 1425 Walnut St.  
 \*Baker, Ayling & Young . . . . . Land Title Bldg.  
 Barclay, Moore & Co. . . . . Real Estate Trust Bldg.  
 \*Barney & Co., Chas. D. . . . . 1428 Walnut St.  
 Battles & Company . . . . . 131 S. Fifth St.  
 \*Bertron, Griscom & Co., Inc. . . . . Land Title Bldg.  
 Biddle & Co., Thomas A. . . . . 424 Chestnut St.  
 Biddle & Henry . . . . . 104 S. Fifth St.  
 Boles & Westwood . . . . . Land Title Bldg.  
 \*Bonbright & Company, Inc. . . . . 437 Chestnut St.  
 \*Bond & Goodwin . . . . . 104 S. Fourth St.  
 Brooke, Stokes & Co. . . . . 140 S. Fifteenth St.  
 \*Brown Brothers & Co. . . . . Fourth & Chestnut Sts.  
 Carstairs & Co. . . . . 1419 Walnut St.  
 Cassatt & Co. . . . . Commercial Trust Bldg.  
 Chandler & Company, Inc. . . . . Franklin Bank Bldg.  
 Clark & Co., E. W. . . . . 321 Chestnut St.  
 \*Converse & Co., A. D. . . . . Commercial Trust Bldg.  
 \*Dillon, Read & Co. . . . . 1421 Chestnut St.  
 \*Doherty & Company, Henry L. . . . . Morris Bldg.  
 Drexel & Company . . . . . Fifth & Chestnut Sts.  
 Elkins, Morris & Co. . . . . Land Title Bldg.  
 Ervin & Company . . . . . 1428 Walnut St.  
 Freeman & Co., M. M. . . . . 421 Chestnut St.  
 Geist Co., C. H. . . . . Land Title Bldg.  
 \*Goldman, Sachs & Co. . . . . 421 Chestnut St.  
 Graham, Parsons & Co. . . . . 435 Chestnut St.  
 \*Guaranty Company of New York . . . . . 421 Chestnut St.  
 \*Halsey, Stuart & Co., Inc. . . . . 437 Chestnut St.  
 Harper & Turner . . . . . Stock Exchange Bldg.  
 \*Harriman & Co., Inc., W. A. . . . . Drexel Bldg.  
 \*Harris, Forbes & Co. . . . . Widener Bldg.  
 Harrison, Smith & Co. . . . . 121 S. Fifth St.  
 \*Hemphill, Noyes & Co. . . . . Franklin Bank Bldg.  
 Investment Registry of America, Inc. . . . . 608 Chestnut St.  
 Janney & Co. . . . . 133 S. Fourth St.

\*Branch Office.

Kendrick & Co., Geo. W., 3rd	1431 Walnut St.
*Leach & Co., Inc., A. B.	115 S. Fourth St.
Morgan & Co., Reed A.	West End Trust Bldg.
*National City Company	1421 Chestnut St.
Newbold's Son & Co., W. H.	511 Chestnut St.
Newburger, Henderson & Loeb	1410 Chestnut St.
*Paine, Webber & Co.	1422 S. Penn Square
Parsly Bros. & Co.	1421 Chestnut St.
Paul & Co.	1421 Chestnut St.
Peirce & Co., Frederick	1421 Chestnut St.
*Powell, Garard & Co.	North American Bldg.
*Redmond & Co.	Broad & Sansom Sts.
Reilly, Brock & Co.	306 Chestnut St.
*Rollins & Sons, E. H.	1421 Chestnut St.
Smith & Co., Edward B.	1411 Chestnut St.
Stinson & Company, R. M.	North American Bldg.
Stroud & Co.	1429 Walnut St.
West & Co.	1511 Walnut St.
Whelen & Co., Townsend	505 Chestnut St.
Wistar, Carter & Co.	North American Bldg.
Wurts, Dulles & Co.	1416 Chestnut St.

## PITTSBURGH, PA.

Applegate, Geo. G.	Commonwealth Bldg.
*Blair & Co., Inc.	Standard Life Bldg.
*Callaway, Fish & Co.	Commonwealth Bldg.
*Cassatt & Co.	Union Bank Bldg.
*Childs & Co., C. F.	Keystone Bank Bldg.
Colonial Trust Company	317 Fourth Ave.
*Dillon, Read & Co.	Union Bank Bldg.
Glover & MacGregor	345 Fourth Ave.
Gordon & Co.	Union Bank Bldg.
*Graham, Parsons & Co.	Peoples Bldg.
*Guaranty Company of New York	Oliver Bldg.
*Harris, Forbes & Co.	Commonwealth Bldg.
*Holmes & Co., J. H.	Union Bank Bldg.
*Kean, Taylor & Co.	244 Fourth Ave.
*Lee, Higginson & Co.	Commonwealth Bldg.
Lyon, Singer & Co.	Commonwealth Bldg.
Mellon National Bank	514 Smithfield St.
Moore, Leonard & Lynch	Frick Bldg.
Pittsburg Trust Company	323 Fourth Ave.
*Redmond & Co.	Union Arcade Bldg.
Stout & Company	Union Bank Bldg.
Union Trust Company	337 Fourth Ave.
Wells, Deane & Singer	Union Arcade Bldg.

\*Branch Office.



## PORTLAND, ME.

Beyer & Small . . . . .	208 Middle St.
Bird & Co., Maynard S. . . . .	120 Exchange St.
Gilman & Co., Chas. H. . . . .	186 Middle St.
Hammons & Co., W. S. . . . .	120 Exchange St.
*Hornblower & Weeks . . . . .	78 Exchange St.
*Lee, Higginson & Co. . . . .	184 Middle St.
Payson & Co., H. M. . . . .	93 Exchange St.

## PORTLAND, ORE.

*Blyth, Witter & Co. . . . .	Yeon Bldg.
*Bond & Goodwin & Tucker, Inc. . . . .	U. S. National Bank Bldg.
Clark, Kendall & Co., Inc. . . . .	Fifth & Stark Sts.
Devereaux & Co., E. L. . . . .	87 Sixth St.
Freeman, Smith & Camp Co. . . . .	Fifth & Stark Sts.
Ladd & Tilton Bank . . . . .	Third & Washington Sts.
Lumbermens Trust Company . . . . .	Broadway & Oak St.
Miller & Co., G. E. . . . .	Northwestern Bank Bldg.
*National City Company of California . . . . .	Yeon Bldg.
Robertson & Ewing . . . . .	Northwestern Bank Bldg.
*Rollins & Sons, E. H. . . . .	Couch Bldg.
Schneeloch Co., Ralph . . . . .	Lumbermens Bldg.
Western Bond & Mortgage Co. . . . .	80 Fourth St.

## PROVIDENCE, R. I.

Bodell & Co. . . . .	10 Weybosset St.
*Estabrook & Co. . . . .	Hospital Trust Bldg.
*Hornblower & Weeks . . . . .	Grosvenor Bldg.

## READING, PA.

*Clark & Co., E. W. . . . .	Berks Co. Tr. Bldg.
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## RICHMOND, VA.

*Miller & Co. . . . .	1108 E. Main St.
Nolting & Co., Frederick E. . . . .	907 E. Main St.

## ROCHESTER, N. Y.

*Chambers & Co., Inc., A. L. . . . .	Cutler Bldg.
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## ST. JOSEPH, MO.

Ford & Porter . . . . .	Eighth & Francis Sts.
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## ST. LOUIS, MO.

Anderson & Co., Lorenzo E. . . . .	310 N. Eighth St.
*Becker & Co., A. G. . . . .	Boatmen's Bank Bldg.
*Burr & Company, George H. . . . .	Third Nat'l Bank Bldg.
*Branch Office.	

*Caldwell & Co.	Security Bldg.
Compton Company, William R.	7th & Locust Sts.
Daly, Seddon Company	Nat'l Bank of Commerce Bldg.
Edwards & Sons, A. G.	412 Olive St.
Francis, Bro. & Co.	214 N. Fourth St.
Friedman, D'Oench & Duhme	507 Locust St.
*Halsey, Stuart & Co., Inc.	Security Bldg.
Kauffman-Smith-Emert & Co., Inc.	Security Bldg.
Lafayette-South Side Bank	Broadway and Lafayette Ave.
*Leach & Co., Inc., A. B.	Security Bldg.
Liberty Central Trust Company	Broadway & Olive St.
Little, Vardaman & Bitting, Inc.	408 Olive St.
Mercantile Trust Company	721 Locust St.
Mississippi Valley Trust Company	Fourth & Pine Sts.
Mortgage Trust Company	Broadway & Locust St.
National Bank of Commerce	Broadway & Olive St.
*Nickerson, John, Jr.	314 N. Broadway
Orthwein, Walter E.	220 N. Fourth St.
Potter, Kauffman & Co.	511 Locust St.
*Prudden & Co.	408 Olive St.
Smith, Moore & Co.	509 Olive St.
Steinberg & Co., Mark C.	300 Broadway
Stifel-Nicolaus Investment Company	314 N. Broadway
Stix & Co.	509 Olive St.
Theis & Diestelkamp Inv. Co.	La Salle Bldg.
Thomson & Co., Lewis W.	Security Bldg.
Walker & Co., G. H.	Broadway & Locust St.
Whitaker & Co.	300 N. Fourth St.

## ST. PAUL, MINN.

Capital Trust & Savings Bank	Fifth & Roberts Sts.
*Eastman Co., William W.	Pioneer Bldg.
Kalman, Wood & Co.	Endicott Bldg.
*Lane, Piper & Jaffray, Inc.	Merchants National Bank Bldg.
Merchants Trust & Savings Bank	Merchants National Bank Bldg.
Northwestern Trust Company	344 Jackson St.
*Stevens & Company	Pioneer Bldg.
*Wells-Dickey Co.	136 Endicott Arcade
Wight-Phinney Co.	93 E. Fourth St.

## SALT LAKE CITY, UTAH

Hogle & Co., J. A.	169 Main St.
Palmer Bond & Mortgage Co.	Walker Bank Bldg.

## SAN ANTONIO, TEXAS

Jarratt & Co., J. E.	Bedell Bldg.
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\*Branch Office.

## SAN DIEGO, CALIF.

Stephens & Company . . . . . Union Bldg.

## SAN FRANCISCO, CALIF.

Anglo & London Paris Nat'l Bank . . . . . 1 Sansome St.  
 Bank of California, N. B. A. . . . . 400 California St.  
 Bank of Italy . . . . . 4 Montgomery St.  
 Barth & Co., J. . . . . 482 California St.  
 \*Becker & Co., A. G. . . . . First National Bldg.  
 \*Blair & Co., Inc. . . . . 454 California St.  
 Blyth, Witter & Co. . . . . Merchants Exchange Bldg.  
 Bond & Goodwin & Tucker, Inc. . . . .  
 . . . . . American National Bank Bldg.  
 Bradford, Weeden & Co. . . . . 433 California St.  
 Brown & Co., F. M. . . . . First National Bldg.  
 \*Burr & Co., George H. . . . . Kohl Bldg.  
 \*Carstens & Earles, Inc. . . . . Insurance Bldg.  
 \*Freeman, Smith & Camp Co. . . . . First National Bldg.  
 Girvin & Miller, Inc. . . . . Kohl Bldg.  
 \*Hunter, Dulin & Co. . . . . American National Bank Bldg.  
 McDonnell & Co. . . . . 335 Montgomery St.  
 Mercantile Trust Company . . . . . 464 California St.  
 \*Moulton & Company, R. H. . . . . American National Bank Bldg.  
 National City Company of California . . . . . 424 California St.  
 Peirce & Co., Cyrus . . . . . 433 California St.  
 \*Rollins & Sons, E. H. . . . . 300 Montgomery St.  
 Ryone & Co. . . . . 405 Montgomery St.  
 Schwabacher & Co. . . . . 665 Market St.  
 Shingle, Brown & Company . . . . . California & Sansome Sts.  
 \*Staats Co., Wm. R. . . . . 477 California St.  
 \*Stephens & Company . . . . . Merchants National Bldg.  
 Strassburger & Company . . . . . 133 Montgomery St.  
 Sutro & Co. . . . . 410 Montgomery St.

## SAVANNAH, GA.

Citizens & Southern Bank . . . . . 22 Bull St.

## SCRANTON, PA.

Brooks & Co., J. H. . . . . 423 Spruce St.  
 \*Cassatt & Company . . . . . Traders National Bank Bldg.  
 \*Gold-Stabeck Company . . . . . Scranton Life Bldg.  
 Weissenfluh & Co. . . . . Mears Bldg.

## SEATTLE, WASH.

\*Blyth, Witter & Co. . . . . Alaska Bldg.  
 \*Bond & Goodwin & Tucker, Inc. . . . . Hoge Bldg.  
 \*Branch Office.

*Burr & Co., George H.	Hoge Bldg.
Carstens & Earles, Inc.	Lowman Bldg.
Dexter Horton National Bank	704 Second Ave.
Ferris & Hardgrove	Hoge Bldg.
*Girvin & Miller, Inc.	1108 Second Ave.
Herrin and Rhodes, Inc.	119 Cherry St.
*Lumbermens Trust Co. (of Portland)	Hoge Bldg.
*Miller & Co., G. E.	Hoge Bldg.
*National City Company of California	Hoge Bldg.
Northwest Trust and State Bank	Second Ave. & Madison St.
*Peirce & Co., Cyrus	Hoge Bldg.
Price & Co., John E.	2nd Ave. & Columbia St.
Seattle National Bank	2nd Ave. & Columbia St.
Union National Bank	2nd Ave. & Cherry St.

## SHARON, PA.

First National Bank	11 W. State St.
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## SPOKANE, WASH.

Ferris & Hardgrove	Paulsen Bldg.
Murphey, Favre & Co.	Sherwood Bldg.
Spokane & Eastern Trust Co.	Howard St. & Riverside Ave.
Union Trust Company of Spokane	Old National Bank Bldg.

## SPRINGFIELD, MASS.

*Estabrook & Co.	387 Main St.
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## SPRINGFIELD, OHIO

*United Security Company	Fairbanks Bldg.
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## SUNBURY, PA.

McClure, Smith & Co., Inc.	First National Bldg.
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## TOLEDO, OHIO.

Bell & Co., A. T.	Second National Bldg.
Bell & Beckwith	Gardner Bldg.
Commerce Guardian Trust & Savings Bank	514 Madison Ave.
Graves, Blanchet & Thornburgh	Gardner Bldg.
Ohio Savings Bank & Trust Co.	Madison Ave. & Superior St.
Prudden & Company	Nasby Bldg.
*Pyncheon & Co.	511 Madison Ave.
Spitzer & Co., Sidney	Spitzer Bldg.
*Stacy & Braun	Second National Bldg.
Terry, Briggs & Company	Ohio Bldg.
Tucker, Robison & Co.	307 Superior St.

\*Branch Office.

## TORONTO, ONT.

Ames & Co., A. E.	. . . . .	53 King St., W.
Canada Bond Corporation, Ltd.	. . . . .	14 King St., E.
Daly & Co., R. A.	. . . . .	Bank of Toronto Bldg.
Dominion Securities Corporation, Ltd.	. . . . .	26 King St., E.
*Greenshields & Co.	. . . . .	14 King St., E.
Wood, Gundy & Company	. . . . .	36 King St., W.

## VICTORIA, B. C.

*Ames & Co., A. E.	. . . . .	310 Belmont House
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## WARREN, PA.

*McClure, Smith & Co., Inc.	. . . . .	Struthers Library Bldg.
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## WASHINGTON, D. C.

*Bertron, Griscom & Co., Inc.	. . . . .	Southern Bldg.
Crane, Parris & Co.	. . . . .	823 15th St., N.W.
*Redmond & Co.	. . . . .	927 15th St., N.W.

## WHEELING, W. VA.

Mitchell & Stevenson, Inc.	. . . . .	57 Twelfth St.
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## WICHITA, KAN.

Brown-Crummer Company	. . . . .	Schweiter Bldg.
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## WILKES-BARRE, PA.

*Weisselstuh & Co.	. . . . .	Miners Bank Bldg.
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## WINNIPEG, MANITOBA

*Wood, Gundy & Company, Ltd.	. . . . .	Lindsay Bldg.
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## WINONA, MINN.

Merchants Trust Company	. . . . .	106 E. Third St.
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## WINSTON-SALEM, N. C.

Wachovia Bank & Trust Co.	. . . . .	Main & Third Sts.
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## WORCESTER, MASS.

*Jackson & Curtis	. . . . .	State Mutual Bldg.
*Branch Office.		

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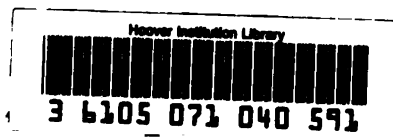
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